

ACQUISITION CHECKLIST

Key departments to contact during your acquisition

Overview

LPL's M&A Solutions team is a strategic partner to advisors and can provide turnkey expertise to ensure a successful transition. M&A Solutions is fast, efficient, and cost-effective, taking the burden off you, the advisor, so that you can stay focused on your clients.

For advisors who prefer to navigate an acquisition on their own (DIY), the checklist below provides common tasks and the LPL department responsible for approving and processing the referenced form(s).

* Please note this is a general list categorized by department, may not be all-inclusive and not all items apply to all situations. Advisors are responsible for submitting the correct forms and for all follow up. Use the *Navigating LPL Guide* on the Resource Center for department contacts. Advisors may also reach out to Advisor Relations (advisor.relations@lplfinancial.com) or to their Relationship Manager.

Purchase Agreement Approval Process

All advisors are required to submit Purchase Agreements to LPL as part of the Annual Compliance Questionnaire. Submit the fully executed agreement to MA.Solutions@lplfinancial.com. M&A Solutions will review and provide approval for agreements that comply with LPL's Purchase Agreement Requirements and Policy. Typical SLA is 4-6 days, dependent on agreement complexity and department volume. LPL requires non-compliant Purchase Agreements be remediated/amended.

Send M&A Solutions the following four items:

1. Fully-executed, compliant purchase agreement and exhibits
2. Copy of the MRR-approved seller client letter
3. Buyer(s) ADV-2B, if buyer(s) is part of the LPL Corporate RIA
4. Attestation from seller (or buyer) letter and ADV-2B were sent

The letter notifying clients of the sale, merger, or retirement, ADV-2B, and advisor attestation the letter and ADV-2B were sent are *required* if a corporate advisor is moving advisory accounts to a new corporate advisor and wants to leverage negative client consent (via F443 form) versus obtaining client signatures. Hybrid advisors move advisory accounts with form F467-R. **Important:** An IAS advisor selling accounts to an IS advisor needs to contact IS Business Consulting to discuss the process and requirements **before** accounts can be moved.

Purchase Agreement Requirements

Ensure your agreement meets the following requirements. If Seller will move RIA platforms, also see Special Circumstances on page 3.

1. Agreement is between LPL advisors, or an RIA (i.e. LPL hybrid firm)
2. Advisors should be listed as LPL registered rep and/or an IAR (under corporate RIA or their hybrid firm)
3. Agreement includes a closing date
4. Agreement is in compliance with the LPL Purchase Agreement Policy restrictions:
 - a. Revenue sharing is not allowed with an individual after they have terminated their registration with LPL
 - i. Exception: Hybrids can share advisory fee revenue only, and must specify in their agreements
 - b. Seller financing note cannot exceed 10 years
 - c. If Seller is termed at the time of the lookback, lookback can be one-time, downward adjusting and not based on revenue or an indirect proxy of revenue.
5. LPL cannot be not listed as a party to the agreement, or required to make payments to the Seller
6. No payment for referral business can be included in the agreement
7. The pages should be numbered and not missing pages
8. The document must be signed by all parties
9. Include all referenced exhibits: client lists, employment/independent contractor agreements, and promissory notes. Lease agreements are not needed as they are local-level agreements.

ACQUISITION PURCHASE AGREEMENTS

LPL Policy Restrictions

Overview

The following outlines key aspects of the LPL Policy regarding Acquisition Purchase Agreements (APA) between LPL advisors.

The following restrictions **only** apply when the Seller is not securities licensed or active as an LPL Registered Representative during the payout or price adjustment periods.

If the selling advisor is appropriately licensed with LPL, then these restrictions do not apply. Note the exception for Hybrid RIA advisors on the bottom of the page.

Definitions

Seller Financing:

A promissory note issued by the Seller to the Buyer to be repaid over a defined period. For example, if an advisor sells her business for \$100k, and there is a \$30k down payment, the remaining \$70k would be in the form of a promissory note paid over a period of up to ten (10) years.

Revenue Share Agreement:

An arrangement by which an advisor is compensated based on a percentage of business revenue. For example, an agreement may indicate the Seller would receive 50% of revenue for two years.

Lookback Clause:

A contractual mechanism to adjust the purchase price or the balance of remaining payments contingent upon certain measured variables of the business such as Asset under Management (AUM) retention.

Seller Financing Payout

- Seller financing **cannot** take the form of a revenue-sharing agreement if the Seller is not properly licensed.
- Seller financing should not exceed ten (10) years from the date payments begin.

Lookback Clauses

- A one-time adjustment to the purchase price is permitted.
- Multiple lookback clauses are not allowed as they create the appearance of an indirect revenue-share.
- Lookback clauses must only be downward adjusting.
- Variables contained in lookback clauses cannot be based on business revenue or any indirect proxy for revenue.
- Variables can be based on total assets under management (AUM) or households defined no later than the closing date and documented in the purchase agreement.

Hybrid RIA Exceptions

If the buying advisor is an Independent Advisor Representative (IAR) of an LPL Hybrid RIA firm, then the aforementioned restrictions do not apply to any advisory fee revenue. The purchase agreement must specifically state the revenue-share is only on advisory fee revenue.

Hybrid IAR's must consult with their firm's Compliance Officer for any SEC restrictions, including a potential ADV modification for revenue-sharing agreements.

Special Circumstances

1. Purchases of books of business or practices that include the Seller moving RIA platforms to the integrated operating model with the Buyer **must** be pre-approved by M&A Solutions.
2. Ownership/client accounts must change hands to the new advisor/entity or equity ownership >51% must be purchased.
3. Purchase agreement must include a fair market price and reasonable terms, with consideration in cash or securities paid within a customary timeframe (i.e. at closing, seller note).

LPL Custody of Purchase Agreements

LPL requires a signed copy of all new and existing purchase and succession planning agreements to ensure the above-mentioned policies are met (this includes all LPL registration types – Corporate, Hybrid, and Enterprise). LPL may require remediation of the purchase agreement if found to be out of compliance. Please send all new and existing purchase agreements to MA.Solutions@lplfinancial.com.

Frequently Asked Questions (FAQs)

I am a Corporate RIA registered advisor. Can I receive revenue-based compensation after I leave LPL, since my FINRA license will remain active for 2 years?

- No; LPL's policy requires you maintain an active advisor or active licensed admin status while receiving variable revenue-based compensation. The only revenue share agreements we currently allow would be following a death or permanent disability trigger only.

Can I receive additional compensation if I bring new assets to the firm after I retire?

- If the business is Hybrid RIA revenue, then you must be properly licensed to receive all non-advisory based this compensation (FINRA, Insurance, State, etc.)

What is an example of an acceptable purchase agreement for a non-LPL active or non-licensed advisor?

- Purchase Price of \$100,000 with a 30% down payment and Seller financing of the \$70,000 balance over the course of five (5) years (i.e. \$14k payments to the Seller per year). The Seller financing can include a lookback clause after the closing date that will measure the retention of assets and adjust the purchase price downward, if needed. *Note there are commission sharing and privacy concerns associated with off-platform purchases.*

What is an example of acceptable purchase agreement for an actively licensed LPL advisor?

- The above example with a down payment and seller financing with a lookback is acceptable.
- Also acceptable would be the Buyer will pay the Seller a down payment at closing and then 50% of revenue for the next two years. This may be on either a split Rep ID or the Buyer may write a check directly to the Seller. Typically, no lookback clause is used since a revenue-share agreement only pays the Seller what the acquired business actually generates in revenue. The agreement **must** contain language requiring the Seller to remain licensed to receive the revenue share and how the agreement would be paid if the Seller's licenses terminated prior payment completion.

DISCLOSURE: The scenarios are provided only as examples of scenarios consistent with LPL policies and procedures. These scenarios do not constitute legal advice and are not meant to serve as pre-approved circumstances.

Updated 1/2023

Key Tasks and Departments for DIY Acquisitions

Task	Department
<input type="checkbox"/> Advisory Billing / Prorating Questions after Accounts Move Rep ID's	Advisory Operations / Client Compensation
<input type="checkbox"/> Change of RIA Platform	Affiliation Consulting
<input type="checkbox"/> Account Move: Brokerage and direct accounts, advisory, 401(k)	CARE
<input type="checkbox"/> Advisory Discount Pricing (<i>if applicable</i>)	Client Compensation or Relationship Manager
<input type="checkbox"/> Commission Report Questions	Client Compensation
<input type="checkbox"/> Direct Deposit for new Rep ID	Client Compensation
<input type="checkbox"/> Override Agreements	Client Compensation
<input type="checkbox"/> Split Commission Agreement (RE-D1)	Client Compensation (Payout Questions)
<input type="checkbox"/> Move Clients tab in ClientWorks	Client Technology Management
<input type="checkbox"/> Add or remove ClientWorks Access for Advisors/Admins	Client Technology Management
<input type="checkbox"/> Add or remove 3 rd party tech: Albridge, Redtail, etc.	See Resource Center / Contact 3 rd Party
<input type="checkbox"/> Approval for Discretion Application	Compliance
<input type="checkbox"/> Approval to Become an OSJ	Compliance
<input type="checkbox"/> Books and Records	Compliance
<input type="checkbox"/> Full Discretion Updates on Advisory Accounts (<i>would not apply to Hybrid</i>)	Compliance
<input type="checkbox"/> Medallion Signature Guarantee	Compliance
<input type="checkbox"/> MRR: Client Communications, Stationery/Business Cards, Client Event	Compliance
<input type="checkbox"/> OBAs: New LLC, Promissory Note, New DBA, Fixed Insurance	Compliance
<input type="checkbox"/> TAMP Account Questions	Compliance (Advisory) / TAMP Provider
<input type="checkbox"/> Update/Create ADV-2B	Compliance (Advisory)
<input type="checkbox"/> Advisor Termination (F-649)	Licensing/Registrations
<input type="checkbox"/> Insurance Appointments (Variable)	Licensing/Registrations
<input type="checkbox"/> Insurance Appointments (Fixed)	LPL Insurance Group / Insurance Company
<input type="checkbox"/> Moving Branch Locations	Licensing/Registrations
<input type="checkbox"/> New Rep ID including Splits	Licensing/Registrations
<input type="checkbox"/> State Securities Licensing Requests	Licensing/Registrations or ClientWorks
<input type="checkbox"/> Status Changes: Hybrid Affiliation, Change OSJ or Role	Licensing/Registrations
<input type="checkbox"/> Split Commission Agreement (RE-D1)	Licensing/Registrations (New ID)
<input type="checkbox"/> Assigning or Paying an LPL Loan (TA / Repayable)	Loan Servicing
<input type="checkbox"/> RPCP accounts: Qualification and Account Rep Update	Retirement Partners