



COMPLIANCE MEMORANDUM

DATE: December 23, 2019
TO: PCS Home Office Managing Principals and OSJ Principals/Delegates
FROM: Seth Owen, Director of Compliance
RE: 2019 Summary Report of Branch Office Inspection Findings

The purpose of this summary report is to share observations related to office inspections conducted in 2019.

As referenced in FINRA Rule 3110(c) firms are required to conduct ongoing internal inspections of each of its offices. While the frequency may vary based on the firm's discretion, at a minimum all OSJs (Office of Supervisory Jurisdiction) are required to be inspected annually while non-OSJ branch offices will be inspected at least every three years though may be more often based on geographical convenience and other circumstances.

This is not intended to be an exhaustive list of issues and observations found, though instead may be used as a resource for Home Office Managing Principals and OSJ Principals/Delegates to better understand some of the common compliance matters found and addressed as a result of the office inspections completed in 2019.

Branch Record Retention

PCS Customer Account Documents

Compliance observed instances where account paperwork (PCS Customer Account Form, Product Provider Application, PCS Purchase Form, etc.) were missing from branch records during the review of client files. While no instances were found during the inspections where accounts were opened, or transactions placed without appropriate paperwork being submitted for prior principal approval first where required, it is our policy that branch offices either maintain or have readily available access to these documents separate from the Broker-Dealer's own records. These documents may be maintained electronically or in physical form. Various copies of missing paperwork was provided to the applicable offices from the Broker-Dealer's own records during the examinations.

Retail Communication and Seminars/Client Event Files

Retail Communication is defined as any written (including electronic) communication that is distributed or made available to more than 25 retail investors within any 30 day period. Private Client Services requires all retail communication be submitted through the Marketing Pro platform for Compliance review and approval prior to its use. Much of what is submitted includes general market commentary updates/newsletters, form letters, seminar presentations, client event invitations, print advertisements, business cards/letterhead, and screenshots of proposed website updates for those offices not using a website host that offers a compliance portal review feed into PCS.

A few instances were found where offices were not maintaining a central **Retail Communication File**, even though material had been submitted and approved in advance through Marketing Pro. While the vast majority of existing offices appeared to maintain a branch Retail Communication File with copies of the material used, a few instances were found where the corresponding approval certificate(s) generated were not also being saved in the central Retail Communication file. The approval certificates should be saved alongside a copy of the final version of the communication. The approval certificate contains key details including though

notwithstanding the date of first use, delivery method, and evidence of final approval. Offices should not rely on Marketing Pro for their own internal record keeping. All Retail Communication and corresponding approvals should be maintained within the branch's own central Retail Communication File either electronically or in a physical folder.

All Seminar/client event material is required to be sent through Marketing Pro for review and approval. To more easily differentiate Seminars from other Retail Communications, a separate **Seminar File** should be maintained. Seminar content, whether created by the branch personnel or obtained from a product sponsor, must be approved by the Compliance Department prior to use through Marketing Pro. In order to approve the Seminar, Compliance must receive a detailed outline and slide show (PowerPoint) if applicable, speaker notes, invitation, list of invitees and any handouts if used. If the content or seminar is conducted by a third-party, a FINRA Review Letter must also be uploaded to Marketing Pro. The branch's Seminar File must contain a copy of all related materials including the approved invitation (with the name(s) and address(es) of those invited), the presentation itself (i.e. slides if applicable), handouts, sign-in sheet of attendees (if applicable) and a copy of the approval certificate from Marketing Pro.

As a reminder, if offices intend to prepare consolidated account reports to provide to customers the office's managing principals must review as certain guidelines should be followed including applicable disclosure language be displayed on the report based on the content. If utilizing a template via a performance reporting software platform where reports are generated for multiple customers using the same template, a sample report along with all included disclosure language/pages should be submitted through Marketing Pro for advance approval by your Managing Principal and Compliance.

Due Diligence Files (General Securities Recommendations)

Certain instances were found where registered representatives who make recommendations in general securities (i.e. individual stocks and bonds) even if seldom, were not maintaining complete due diligence files based off firm policy requirements. Private Client Services requires Registered Representatives who make general security recommendations to maintain a **Due Diligence File** with at least two separate sources of documentation to support why a particular individual security recommendation was made. Examples of acceptable supporting documentation could include a Morningstar report, general research report, an established industry publication/article, or other supporting materials used to justify a rationale for making specific recommendations. These documents may be maintained electronically or in a physical file and should be readily available for review upon request including during office inspections.

Registered Representative Files

As a reminder, PCS requires representatives to maintain personnel files (both registered persons and non-registered associated persons). For registered persons these files should include a copy of Form U4 or alternatively a copy of the representative's FINRA BrokerCheck Report (no older than two years old). Copies of the individual's PCS affiliation paperwork should also be maintained in this file. This includes copies of the E&O Certificate, continuing education certificates, copies of annuity/insurance licenses, the social media and website disclosure form, and other PCS-related individual representative disclosure forms completed as part of the onboarding and ongoing association with Private Client Services.

Supervision

Monthly Supervisory Logs

Each Office of Supervisory Jurisdiction (OSJ) location must submit their PCS Supervisory Logs evidencing their reviews on a monthly basis. The completed log should be provided for review to the Director of Field Supervision (Ann Wilson) with the goal of having it reflected on the Quest Compliance Portal, along with applicable supporting summary documents (i.e. account review forms) no later than the 15th calendar day on the following month for the period reviewed.

Independent Registered Investment Advisor (RIA) Activity Forms

The single page Independent RIA Activity Disclosure form should be submitted for each new Independent RIA customer and submitted to OutsideRIA@pcsb.net. It should also be used when information previously provided from a prior disclosure (IRIA form or initial PCS onboarding spreadsheet) is no longer accurate including account financial profile/investment information changes or an account closes). This form enables PCS to have the appropriate information on file to review outside RIA transactions in order to meet our obligations to review private securities transactions (FINRA Rule 3280) of our registered representatives.

Quest Portal Activity Disclosures

As a reminder, a comprehensive list of applicable forms, logs and activity disclosures that require submission through the Quest Portal (weekly check logs, quarterly or annual gift logs, monthly incoming/outgoing physical customer correspondence, political contributions, etc) are available under the Compliance section on the PCS Advisor Resource Center. This information has also been included within PCS Quarterly Newsletters distributed to all associated persons in 2019. All of these applicable activities are being disclosed and uploaded to Quest so timely review and approval by appropriate Managing Principals and/or Compliance where necessary are completed.

Information Technology

Vendor Due Diligence Documentation

Due to the vast array of customer relationship management platforms, cloud service providers and other information technology vendor relationships that exist throughout our registered representatives' branch offices its important to maintain relevant due diligence information for each vendor/provider in order to show reasonable efforts in determining a vendor's ability to protect sensitive data from being misused. To confirm whether a vendor that provides IT support/services in your office has sufficient controls in place to protect against cybersecurity threats, a request for a due diligence packet may be directed to the vendor directly and should be maintained in the branch's records.