

## BRANCH OFFICE INSPECTION OVERVIEW

The Compliance Department conducts individual branch inspections every one to three years (its frequency depends on several variables). The inspection provides us with an opportunity to meet with our Financial Advisors in person, discuss compliance-related matters, and ensure that our Financial Advisors have a solid understanding of, and are adhering to, applicable rules and regulations that govern the securities industry.

This overview is being provided to assist branch locations in identifying the types of records that will be reviewed during a branch / OSJ inspection and to help prepare the office(s) in the event of a regulatory visit. This overview is not meant to be all inclusive, but does provide some guidance related to the types of things that will be included in the PCS examination.

### 1. Branch Examiners

Private Client Services may utilize either Compliance personnel or third parties to assist with some of our inspections. Each will have a strong history of conducting inspections, industry experience and familiarity with PCS policies. Exams can be announced or unannounced.

### 2. Registered Representative File

- You must be properly registered and not conduct business in states in which you are not registered.
- A copy of your Form U4 or, alternatively, a current copy of the FINRA BrokerCheck Report (<http://www.finra.org/Investors/ToolsCalculators/BrokerCheck/>) should be maintained in the **Registered Representative File**. You may also keep copies of your regulatory element completion notices, copies of annual E&O certificates and other specific registration-related documents related to your association with Private Client Services.
- Copies of U4s and U5s from previous broker-dealer affiliations may also be kept in the Registered Representative File.
- If your assistant handles client funds, and/or has access to client files, he/she will need to become a Non-Registered Fingerprint Person. You can obtain further information by contacting the Registration Department. Copies of PCS related on-boarding and disclosure documents should be maintained in a separate Personnel File for each non-registered and registered individual.

### 3. Retail Communication Review, Approval and Recordkeeping (Formerly - Advertising File)

- All retail communication involving securities products or services must be approved by the Compliance Department via MarketingPro prior to use.
- If you choose to have a financial services website, you must use an approved vendor (Broadridge, Smarsh, FMG Suite, AdvisorWebsites, Twenty Over 10) or each page of the website with changes must be submitted for review and approval via MarketingPro each time a change is made to the site.
- The **Retail Communication File** must contain the final version of each submission with evidence of the approval (Certificate). A form letter that is sent to 25 or more recipients within 30 days is considered retail communication and must be maintained in the central file. Other retail communications include but notwithstanding physical or online advertisements, static portions social media profiles (About Us/Bios), newsletters, general market commentaries, or other communications intended to be distributed or made available to 25 or more recipients within 30 days. A copy of the final version of the letter, with all required changes incorporated, must be maintained in the file with evidence of the approval (Certificate) and mailing list of all recipients. If the mailing is done by MarketingPro.com keep one copy with the mailing list (which includes name(s) and address(es)). Materials intended for internal use only should not be made available to the public. This also includes photocopies of articles from newspapers or magazines unless reprint permission has been obtained from the publisher and the Compliance Department has approved the material for use with the general public.

#### 4. Business Cards and Letterhead

- All Representatives are required to have business cards and letterhead.
- All business cards and letterhead must be approved and copies maintained in the Retail Communication file with copy of approval (Certificate).

#### 5. Outgoing Correspondence Review, Approval and Recordkeeping (Outgoing Correspondence File)

- All investment related outgoing client correspondence, faxed, given or mailed must be submitted to a Managing Principal via Docupace for review at least monthly. If no physical correspondence is sent for the month then a Correspondence Cover Sheet must be submitted to Docupace denoting that inactivity.
- The **Correspondence File** must contain a copy of all outgoing customer correspondence. Copies of correspondence must be submitted for review at least monthly.
- Email is post-reviewed and does not require prior compliance review unless sent with an unapproved attachment or to 25 individuals or more within 30 days (pre-approval of retail communications sought thru Marketing Pro).

#### 6. Incoming Correspondence Review and Recordkeeping (Incoming Correspondence File)

- All incoming correspondence from clients that is investment related must be forwarded to the Managing Principal via Docupace for review at least monthly. If no physical correspondence is received for the month then the coversheet must be submitted to Docupace denoting that inactivity.
- The **Correspondence File** must contain a copy of all incoming correspondence.

#### 7. Seminar Review, Approval and Recordkeeping

##### Seminars you conduct for your clients

- Seminar content, whether you create it or obtain it from a product sponsor must be approved by the Compliance Department prior to use. In order to approve the seminar, Compliance must receive a detailed outline. If a slide show in PowerPoint will be given, detailed speaker notes and any additional handouts must accompany the slides. If it is a third-party seminar, the FINRA Review Letter must also be provided to the Compliance Department via the MarketingPro system.
- The seminar invitation, handouts and any communications about the seminar, if applicable, must be approved prior to use as well (Via MarketingPro).
- The **Seminar File** must contain a copy of the approved invitation (with the name(s) and address(es) of those invited) and presentation, any seminar communication, copies of all materials handed out during the seminar, and a sign-in sheet of attendees (Approval certificate for each event).

##### Seminars or client appreciation events that a third party conducts for your clients (expenses for which are fully/partially covered)

- Prior approval must be obtained by your Managing Principal and the Compliance Department.
- Reimbursement checks are to be made payable to Private Client Services and sent to the Finance Department with the appropriate receipts.
- You will be reimbursed via check.

##### Attendance at Due Diligence Meetings – If the meeting provider is covering the cost of your travel, lodging, and meals.

- The meeting provider must secure approval from the broker/dealer prior to making the invitation.

#### 8. Review of Blotters/Logs

**\*Check Blotter** *\*Effective 1/4/2021, checks received must be logged into Docupace as received. If no checks are received for a given period, there is no longer a requirement to disclose that inactivity.*

- If you take physical control of a client check it must be logged within 24 hours of receipt through Docupace. For instructions on how to log a check in Docupace please reference the Docupace section within the PCS Advisor Resource Center: <https://pcsbdb.net/client-access-area/docupace/>

## Gifts and Gratuities Log

- You are required to maintain a complete record of all gifts received from or given to a client. The Gift Log must be maintained on an ongoing basis and submitted to your Managing Principal via Docupace on a qtrly basis if activity exists during that quarter. If no activity has occurred (i.e. isolated to annual year-end gifts only) then an annual disclosure may be made in Docupace.

## 9. Checking Account Review

- You are required to maintain a checking account for commission deposits, which is opened using your personal social security number and has a complete record of source of deposits as well as payments made. Joint checking accounts with other household members are also acceptable. Unacceptable account-types include any corporate, LLC or LLP checking accounts (accounts which contain a separate Tax Identification/Social Security number different from your personal social security number). PCS may review checking account records as part of the audit process. Representatives should have available 12 months of statements for the examiner.
- In addition, if you maintain a separate checking account for business expenses/office expenses, the inspection may also review the activity within the operating account in addition to the personal checking account.

## 10. Client Files

- Effective 1/4/2021, documents submitted via Docupace (i.e. Customer Account Form, Purchase Form, BD Changes, LOA's, other PCS related Account Forms, etc) are no longer required to be maintained separately in the representative's or branch's client files. However, client documents pertaining to activities prior to 1/4/2021 or later which are not in Docupace, should continue to be maintained and available for inspection. This includes historical or new items which would be considered part of a working client file, if not available in Docupace including:
  - Dated/detailed client meeting notes – maintained physically or electronically (i.e. CRM)
  - Research related to recommendations (Reg BI material support) if not available in Docupace
  - If applicable, copies of checks, policy delivery receipts or other written instructions.

## 11. Client Statements/Confirmations

For Pershing Accounts:

- You have access to clients' monthly/quarterly brokerage account statements and confirmations for Pershing brokerage accounts via NetX360™.

For non-brokerage, fund direct, TPAM, or insurance product accounts

- You may access the mutual fund or insurance company websites to obtain statements.

## 12. Complaint File

- The **Complaint File** must contain copies of any initial complaint letters, your written response to the Compliance Department (Complaint form) and the final resolution letter sent to the client from the Compliance Department. All complaints should be immediately forwarded to both your Managing Principal **AND** the PCS Compliance Department.

**13. Due Diligence File** - If recommendations of general securities (i.e. stocks) are made then: **two sources** of credible documentation used to solicit those stock trades should be maintained which may include research reports, news/industry publications or other reputable public sources **AND** a list of persons you have solicited for those stock trades.

## 14. Compliance File

- Effective 1/4/2021, items which are not already maintained in their own electronic namesake disclosure folder within Docupace (i.e. Outside Business Activities Disclosures, Personal Investment Account Disclosures, etc), should be maintained within the representative's or branch's central Compliance File. Items which aren't separately maintained in Docupace which should be maintained in the Compliance File would include PCS Office Inspection letters, Regulatory Audits/Inquiries, Compliance-related correspondence addressed to you, etc.

## 15. Branch Signage

- The Private Client Services and SIPC signs must be prominently displayed in the branch office. “Prominently” is generally defined as the lobby or waiting area, or the office in the branch where you meet with prospects/clients.

## 16. Manuals

- You have access to the most recent FINRA and MSRB manuals via links on the PCS website.
- You also have access to the current Compliance Manual and other important information located on the Advisor Resource Center under “Policy and Procedure Manuals”.

## 17. Email Addresses

- You are required to use your PCS-approved email address (example [john.doe@kfg.com](mailto:john.doe@kfg.com)) for any securities-related email in addition to all emails with the home office. **Outside web-based ISP-provided email accounts (i.e. Yahoo, Hotmail, Gmail, and MSN) are not permitted for securities-related email.**
- Other domain e-mail addresses may be used as long as they are pre-approved by the Compliance Department and are archived in the Global Relay system.
- Any securities-related emails inadvertently sent to your outside email account must be forwarded to your PCS-approved email address.

## 18. Locked File Cabinets

- FINRA requirements specify that client files be secured at all times. Locking file cabinets or unlocked files in a locked office are acceptable. We suggest that you use both a locked office and locked files.

## 19. Social Networking and Website Disclosure Form

- All individuals are required to complete the above-referenced form and send it the Compliance Department via Docupace. This applies even if you don’t have a website or Social Media site. Copies of the form must be kept for future reference. If the information becomes no longer accurate, then a new disclosure must be made via Docupace.

## 20. \*Required Central Files

- Retail Communication File (Formerly Advertising)
- Complaint File
- Correspondence File (Incoming/Outgoing)
- Due Diligence File (If recommendations of general securities are made)
- Compliance File
- Seminar File
- Registered Representative File
- Client Files

*\*Folders with above disclosures/ documents maintained within Docupace may be relied on by the branch or representative as their official books and records so you are not required to maintain separate record of these folders/ disclosures outside of Docupace unless desired. Central files/ disclosures maintained by branch offices pertaining to activities prior to 1/4/2021 should continue to be kept for historical purposes only. You may maintain compliance-related folders and documents on Docupace outside of the above list of required central files.*