

Compliance Alert 2022-02

To: All PCS Registered Representatives, Support Staff, Home Office Personnel
Date: February 22, 2022
Re: **Non-Cash Compensation Guidance**

Private Client Services Compliance Department is issuing this Compliance alert to remind Financial professionals of their obligation to comply with current market rules related to Non-Cash Compensation and Regulation Best Interest Conflict of Interest requirements. The following is guidance taken from the Finra website:

Non-Cash Compensation Rules

[FINRA Rules 2310 \(Direct Participation Programs\), 2320 \(Variable Contracts of an Insurance Company\), 2341 \(Investment Company Securities\), 5110 \(Corporate Financing Rule – Underwriting Terms and Arrangements\)](#) (together, the Non-Cash Compensation Rules) impose restrictions on non-cash arrangements that are in connection with the sale and distribution of securities covered by those rules. The Non-Cash Compensation Rules prohibit a member firm or associated person from directly or indirectly accepting or making payments of any non-cash compensation, subject to specified exceptions.

The exceptions permit:

- gifts that do not exceed an annual amount per person fixed by the FINRA Board of Governors (currently \$100) and are not preconditioned on achievement of a sales target;
- an occasional meal, a ticket to a sporting event or the theater or comparable entertainment which is neither so frequent nor so extensive as to raise any question of propriety and is not preconditioned on achievement of a sales target;
- payment or reimbursement by “offerors” (product issuers, advisers, underwriters and their affiliates) in connection with training or education meetings, subject to certain conditions, including meeting location restrictions and not preconditioning attendance on achievement of a sales target; and

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- internal firm non-cash compensation arrangements that are based on total production and equal weighting of product sales. (Rules 2310 and 5110 do not impose total production and equal weighting requirements on internal non-cash compensation arrangements.)

Regulation Best Interest

Effective June 30, 2020, [SEC Regulation Best Interest \(Reg BI\)](#) establishes a standard of conduct for broker-dealers and associated persons when they make a recommendation to a retail customer of any securities transaction or investment strategy involving securities. Reg BI requires broker-dealers to act in the best interest of the retail customer at the time the recommendation is made, without placing the financial interest of the broker-dealer ahead of the interests of the retail customer.

Reg BI requires broker-dealers to establish, maintain and enforce written policies and procedures reasonably designed to identify and at a minimum disclose, or eliminate, all conflicts associated with such recommendations. Among other things, broker-dealers must identify and eliminate any sales contests, sales quotas, bonuses and non-cash compensation that are based on the sales of specific securities or specific types of securities within a limited period of time. Accordingly, in addition to Non-Cash Compensation Rules' restrictions, any non-cash compensation arrangement must be consistent with the requirements of Reg BI.

Private Client Services reminds Financial Professionals that receipt of reimbursements from product providers related to general business expenses, software costs, or other expenses not outlined in the guidance above is a violation of industry rules and Private Client Services non-cash compensation policy. We recognize that these types of reimbursements were standard practices by product providers prior to Regulation Best Interest, but the new rule requires conflicts of interest be disclosed or mitigated if possible. PCS has determined the best policy is to remove these conflicts.

Also, as a reminder, if a Financial Professional does receive reimbursement for a client event, training meeting or other approved non-cash compensation item, the PCS Product Sponsor Training Meeting Approval Request Form or PCS Client Event-Seminar-Advertising Reimbursement Request must be submitted to Compliance via Docupace.

If you have questions related to the PCS Non-Cash Compensation policy, please send an email to compliance@pcsb.net.

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