



"Personal Attention is Our Promise"

2225 Lexington Rd. Louisville, KY 40206 PH: 1-800-966-9347 FAX: 502-473-1721

2013 HOLIDAY SCHEDULE

In addition to the NYSE being closed, the Home Office will also be closed on the following days:

Martin Luther King, Jr. Day	January 21
Washington's Birthday	February 18
Good Friday	March 29
Memorial Day	May 27
Independence Day	July 4
Labor Day	September 2
Thanksgiving Day	November 28
Christmas Day	December 25

Compliance Update

4th Quarter 2012

Action Required

- **Advisory Account Selection Disclosure**

Pursuant to guidance received during a recent regulatory exam, we have developed the PCS Advisory Account Selection Disclosure Form (“Form”). The purpose of this new Form is to clearly document the rationale for recommending to advisory clients either a/an; 1) Financial Plan, 2) Allocation Account (“JPU”), or 3) Third-Party Asset Manager (“TPAM”). In addition, the Form evidences the rationale for the recommendation of a particular TPAM, all strategies that were recommended to the client, and identifies the Program selected by the client. The Form must be submitted with any new advisory account, along with a printed copy of the Questionnaire or profile tool used by the advisor to identify the proposals presented to the client as recommendations. A copy of the new Form, with instructions, is attached to this Newsletter, and is also available on the PCS Network drive and website.

- **Annual Client Advisory Account Review Form**

The recent regulatory exam also identified a specific requirement for PCS to maintain record of all annual advisory account reviews performed by PCS Advisory Representatives. In order to better document these reviews, we have developed an annual Advisory Account Review Form (“Form”). This Form is separate from the generic Client Account Review Form (used to document any client meeting, not specific to advisory accounts) in that it asks specific questions related to the advisory account and includes specific language related to the review of the appropriate benchmark and/or indices with the client. The new Form also provides the ability to identify whether an annual review has been declined by the client, or if attempts have been made to schedule an annual review with no success.

To assist with this revised process, the Operations Department will maintain copies of the Annual Advisory Account Review Forms, and provide account listings periodically to help manage the outstanding reviews. The annual review may be completed at any time during the calendar year, and is a once per-year requirement. The new Advisory Account Review Form is attached to this Newsletter, and is also available on the PCS Network drive and website.

Prohibited Practices

- **Pre-signed paperwork**

Pre-signed paperwork stored for later use, such as Letters of Authorization to effectuate withdrawals and transfers of funds for customers, is strictly prohibited. Also, it is a violation of firm policy to make copies of signature pages for clients and re-use those signature pages for other unsigned documents.

- **Signing Blank/Incomplete Forms**

Never, under any circumstances, should you have your client sign an account opening document in a blank or incomplete format, for you to complete at a later time. Having account forms signed in blank is worse than submitting incomplete forms. By controlling the ultimate content, Registered Representatives (“RRs”) expose themselves to a claim that they exercised control (i.e., “discretion”) over all of the customer’s accounts. PCS does not permit its associated RRs to exercise discretion over client accounts. The greater control that a RR maintains over an account, the greater the duties owed to that client. Having a client sign forms in a blank format also potentially opens the RR up to fraud claims.

If the circumstances dictate that the RR needs to complete an account document at a later date, then do so, but without the client pre-signing the blank form. This way, the RR can send the completed form to the client with a covering letter/e-mail explaining the action(s) taken, and obtain the client signature on the completed form. By doing so, the RR may avoid a potential fraud claim associated with a form signed in a blank format.

For additional information please read the following article: Securities Compliance Sentinel - Do You Want To Know A Secret About Account Opening Documents.

Reminders

▪ **Concentration**

Concentration, the anti-thesis of the well-diversified portfolio, is central to any suitability determination. The SEC and self-regulatory bodies have generally found recommendations to build a highly concentrated portfolio an unsuitable strategy. A Registered Representative (“RR”) has a duty to recommend that a client diversifies his/her assets, and avoid over-concentration in a limited number of stocks or asset classes. Even if the customer understood the RR’s recommendations and decides to follow them, that would not relieve the RR of his/her obligation to make reasonable recommendations. Regulatory disciplinary decisions suggest that the burden placed upon RRs to justify a recommended concentration increases as the type of security becomes more speculative. A potential risk to the RR’s relationship with a client involves over-concentration. While concentration defies a precise definition, it may exist in many different scenarios, including where a significant percentage of client's assets are in; 1) A single security, 2) A particular sector, or 3) Certain products.

Before making a recommendation, the RR should consider all relevant factors such as the client's net worth, financial needs and objectives, including whether a proposed investment could present a concentration issue for that client. Concentration is an important aspect of the suitability determination. Keep in mind that suitable investments can become unsuitable when they constitute too large a portion of a client's portfolio. While a client may be suitable to own \$10,000 or \$25,000 worth of one security, he or she may not be suitable to hold \$500,000 or \$5,000,000 worth of the same security. This holds true even for large-cap or blue-chip companies since highly negative news could lead to material declines in any issuer's stock or the particular sector.

Accordingly, RRs are encouraged to review accounts for situations involving concentrated positions and discuss the risks of such positions with the client and their Managing Principal. In addition, RRs should review objectives with the client to ascertain whether the client understands and intends to assume the level of risk associated with the concentrated position. If a client continues to build a concentration against the RR’s advice, the RR should speak with their Managing Principal who may wish to consult with Senior Management or the Compliance Department. Care should be taken whenever one position or industry sector dominates a client's holdings. Depending upon the industry sector and market conditions, a concentrated security position may be vulnerable to volatile price movements that may result in substantial losses and/or margin calls. While there are some investors for whom this style of investing may be suitable, special care should be taken to ensure that such clients are fully aware of and able to sustain the risks inherent in this style of investing.

▪ **Market Timing / Late Trading**

Registered Representatives (“RRs”) are reminded that PCS does not allow late-trading, and that any “market-timing strategy” involving the purchase and/or sale of mutual funds is not allowed. RRs should also be aware of pricing received by customers for mutual fund orders placed at the end of each trading day. The RR should verify the price received by the customer on T+1 basis to ensure the correct NAV was given based on the time of the order. Managing Principals should review the execution of all mutual fund orders to ensure the client received the appropriate day’s NAV as part of their prior day transaction blotter review.

▪ **E-mail Account / Website Approval**

Registered Representatives (“RRs”) must disclose, and obtain prior consent, for all e-mail accounts used for business related communications so they may be monitored, and linked to Global Relay for archiving. Use of any undisclosed or unapproved e-mail account for business related communications is strictly prohibited. All websites must be approved prior to use, and are limited to Emerald or other PCS approved providers that allow pre-review and approval of content changes prior to implementation.

In response to RR inquiries regarding disclosure language for e-mail communication, please find below the suggested language to be added to your e-mail signature. This disclosure is being added to all outgoing

(external) e-mail messages sent through the KFG exchange. It is strongly suggested that representatives using other email exchanges add the disclosure to their signature lines.

Private Client Services does not accept orders and/or instructions regarding your account by e-mail, voice mail, fax or any alternate method. Transactional details do not supersede normal trade confirmations or statements. E-mail sent through the Internet is not secure or confidential. Private Client Services reserves the right to monitor all e-mail. Any information provided in this e-mail has been prepared from sources believed to be reliable, but is not guaranteed by Private Client Services and is not a complete summary or statement of all available data necessary for making an investment decision. Any information provided is for informational purposes only and does not constitute a recommendation. This e-mail is intended only for the person or entity to which it is addressed and may contain confidential and/or privileged material. Any review, retransmission, dissemination or other use of, or taking of any action in reliance upon, this information by persons or entities other than the intended recipient is prohibited. If you received this message in error, please contact the sender immediately and delete the material from your computer.

- **Equity Indexed Annuities**

Registered Representatives (“RRs”) are reminded that holding a license as an insurance agent does not qualify an individual to understand the features of an Equity Indexed Annuity (“EIA”), or the extent to which an EIA meets the needs of a particular customer. They should review FINRA NTM 05-50 and contact their Managing Principal for guidance. Sales of EIAs are not permitted as outside business activities, or private securities transactions. All sales of unregistered EIAs must occur through PCS. RRs are prohibited from selling any EIA not on the PCS approved list.

- **AML Sites Review**

Pursuant to the USA Patriot Act, Registered Representatives and Managing Principals are required to periodically review the sites provided below in order to remain current on the industry guidelines and rules related to AML. As a best practice, it is recommended you add these sites to your Favorites List, and review periodically.

www.finra.org

www.bankersonline.com

<http://www.ustreas.gov/>

<http://www.fincen.gov/>

http://www.fincen.gov/reg_bsaforms.html

- **Gift Logs**

Registered Representatives are reminded that all gifts sent to clients and/or received from clients must be logged on the Gift Log and submitted to your Managing Principal for review and approval. The limit on gifts is \$100.00 per client and is based on a revolving 12 month period (not calendar year). Please take inventory of any gifts received or given, and ensure they are logged and submitted accordingly.

Managing Principals, please submit reviewed logs to Compliance for central record-keeping once reviewed.

Managing Principal Information

- **New Hire Checklist**

PCS has developed a New Hire Checklist Form (“Checklist”) that provides the Managing Principal with a tool to review a new Registered Representative’s (“RR’s”) office set-up to ensure he/she has the necessary access to systems, understanding of policies and procedures, and manuals necessary for the RR’s success. The Checklist should be completed within 90 days of the new RR’s date of association, and included with the applicable monthly Supervisory Log. The Checklist is attached to this Newsletter, and available on the Supervisory Drive/Supervisor Forms within the PCS Network.

- **Variable Annuity Review Update**

Due to heightened regulatory scrutiny, Managing Principals (“MPs”) are required to supervise variable annuity (“VA”) business at an aggregate/macro level to identify trends or red flags relating to suitability. To facilitate such a macro review, the PCS Operations Department (“Operations”) maintains an internal VA New Business Tracking Log (“Log”). This Log captures account-level information to assist MPs with

the identification of trends, patterns, red flags, etc. Operations will begin distributing the information to MPs in the first quarter 2013.

In addition, VA product providers make available various external reports and/or account-level information related to VA client policies. For your convenience, PCS has assembled the attached listing of the various external vendor provided information sources. Each MP is responsible for obtaining access to the applicable vendors for their specific supervisory group.

Managing Principals should utilize the external product provider information in conjunction with the internal Log when conducting the macro level review.

- **Senior Account Reviews**

The PCS Written Supervisory Procedures state that accounts for seniors must be reviewed by Managing Principals to ensure the client suitability is appropriate. The number of required reviews has recently been better defined to include 5% of all accounts over the age of 65, and 100% of accounts over the age of 80 each calendar year. In order to assist with these reviews, a Senior Account Review Form (“Form”) is under development, which will be used in a similar manner as the Advisory Account Review Form. More information will be provided by Donte Harris upon completion of the Form.