

QUARTERLY COMPLIANCE NEWSLETTER (1ST QUARTER, 2012)

One of the primary goals of your Compliance Department is to keep all representatives informed of PCS policies and procedures, the use of best practices, and changes in industry rules and regulations. In order to assist with this goal, and in addition to periodic Compliance Alerts, Quarterly Compliance Newsletters will also be distributed. The information contained in our newsletter should be reviewed by all representatives and used to help clarify an existing policy or procedure, industry rule or regulation.

Topics included in this newsletter include:

- Advertising / Sales Literature Approval Process
- Gifts and Gratuities Record Keeping
- Voicemail / E-mail Disclosures
- Cold Calling Policy Reminder
- Stock Certificate Processing Prohibition Reminder
- Client Meeting Form / Guide (New)

Advertising / Sales Literature Approval:

All Advertising (communication to an undefined audience) and Sales Literature (communication to a defined audience of 10 persons or more) must be approved prior to use. In order to assist representatives with the approval process PCS utilizes the Peter Montoya system (Marketing Library). The Montoya system may be accessed by any representative through the PCS website portal (www.pcsbd.net). All Advertising and Sales Literature must be submitted for review and approval via the Montoya system, and cannot be used unless approved by the Compliance Department. Once an item is approved, the representative must print an approval certificate and maintain a copy of the approval with a copy of the final approved item in a central advertising file.

We strive to complete each advertising / sales literature review as quickly as possible, and in most instances are able to review and respond back on each item within 48 hours, many times even quicker. Keep in mind that items that require significant edits or larger items such as presentations or websites may require additional time to complete the review. If you have an item that needs immediate attention, please send a quick email alerting us of the item so we can address it ASAP.

There are many instances where a submitted item will require some edits before it may be approved. The Montoya system allows for communication between the reviewer and submitter via e-mail, so please make sure to monitor your e-mail account during the review process. The final approval will also be delivered to your e-mail address.

Gifts and Gratuities:

FINRA rules and PCS policy (See Compliance Alert 2011-01) place limitations on receiving and giving gifts. In order to fully comply with these regulations, the following summarizes the limitations and your responsibility:

- Registered Representatives may not solicit gifts or gratuities from customers or other persons with business dealings with PCS, or any of its affiliated companies.
- Registered Representatives are not permitted to accept gifts from outside vendors currently doing business (or seeking future business) with PCS, or any of its affiliated companies, without the prior written approval of Compliance.
- Gifts of anything of value, and gratuities to anyone relating to PCS' business, or any of its affiliated companies are limited to \$100 per year.
- **Gift cards/certificates that can be fully or partially converted to cash are not permitted.**
- Gifts and gratuities are not permitted when given for the purpose of influencing or rewarding the action of a person in connection with the publication of information which has, or is intended to have, an effect upon the market price of any security.
- Registered Representatives may wish to reward non-registered associates, including associates of affiliates, as a "thank you" for referrals. This "thank you" must be of a nominal amount to avoid being construed as additional compensation to the one-time nominal fee already provided for referrals. Items that would be acceptable for non-registered associates would be items such as donuts for breakfast, pizza lunches or other equivalent items. **All other types of gifts are prohibited for non-registered associates.**

PCS written supervisory procedures require that you submit a request in writing to your designated Supervisor PRIOR to giving a gift that is in any manner business-related to an individual employed by another broker-dealer, a financial institution or any other entity with which we have a business relationship. Designated Supervisors will review and either approve or deny each request in writing.

You should maintain an Annual Gift & Gratuity Log and submit your completed log to your designated Supervisor by the 15th day following the quarter end.

Voicemail / E-mail Disclosure:

The vast majority of clients are not familiar with the restrictions that are unique to our industry, and will from time to time make assumptions related to the investment business. For example, leaving trade instructions on voicemail, or sending instructions via e-mail. In addition, FINRA has recently distributed notifications related to fraudulent client account instructions and hacking examples that have affected customer accounts, specifically related to trade instructions sent via e-mail and left on representative's voicemail.

There are no industry rules requiring voicemail or e-mail disclosures; however there is industry best practices that PCS recommends be put into place to help avoid trade errors and fraudulent activity:

Voicemail: Please take the time to listen to your voicemail introduction and verify that it includes language detailing that trade instructions may not be left on voicemail, and any instruction left will not be honored. It is also recommended that an alternative contact number be included in order for your client to submit trade instructions. This alternate contact may be for another PCS representative, or the Pershing trade desk (1-800-225-4830).

Email: Each representative's outgoing e-mail account should include an approved signature disclosure section. The disclosure should be submitted and approved, and appear on every e-mail conversation chain. The disclosure should include specific language related to your affiliation with PCS, FINRA and SIPC.

Cold Calling:

Cold calling has been a standard activity for inexperienced representatives entering the industry for decades. With the limitations surrounding cold calling, such as the proliferation of privacy rules and do not call lists, and the perception of individuals making cold calls, there are significantly less firms allowing cold call activity today. Based on the professionalism and experience level of representatives the no cold call policy has been adopted by PCS:

No PCS associated individual may participate in any cold calling activity related to PCS business. This prohibition includes contacting individuals and entities. This policy is also interpreted to include hiring an outside vendor to perform cold calling activity on behalf of a PCS associated person.

Stock Certificates:

Private Client Services membership agreement with FINRA allows the firm to serve as an introducing broker dealer to its' clearing firm Pershing. PCS is not permitted to directly or indirectly process stock certificates on behalf of any customer. This is the responsibility of the clearing firm. In other words, neither PCS representatives nor PCS home office personnel may process or assist in the processing of stock certificates.

If you have a customer that has a stock certificate that they wish to deposit into their brokerage account, the only allowable action is to advise the customer to send the certificate directly to Pershing and supply the account number. Even providing the customer with a blank stock power is viewed as indirect processing of a certificate.

Client Meeting Form / Guide:

Attached with this newsletter is a new tool that has been developed to assist with record keeping as well as guidance when conducting meetings with clients. The form is NOT a mandatory tool and does not require a customer signature. The intent of the form is to provide a simple, yet effective way to consistently review a client's account performance and activity. The form also includes some suggested topics of discussion that may lead to additional cross sell opportunities.

With regard to advisory accounts, the client agreement states that an annual review must be offered to each customer. This tool could be used to document the review, help guide the review topics, as well as identify any potential customer changes/concerns. The form also has a place for referrals and for scheduling the next review.

The form is not limited to advisory account reviews. The form may be used to document any client meeting, for any type of account, brokerage, direct business, mutual fund, annuity, etc...

Questions related to any of the information discussed in this newsletter should be directed to your designated supervisor.