

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2015043589501**

TO: Department of Enforcement
Financial Industry Regulatory Authority (“FINRA”)

RE: Principal Securities, Inc. (f/k/a Princor Financial Services Corporation), Respondent
Member Firm
CRD No. 1137

Pursuant to FINRA Rule 9216 of FINRA’s Code of Procedure, Respondent Principal Securities, Inc. (f/k/a Princor Financial Services Corporation, hereinafter “Principal Securities” or “the Firm”) submits this Letter of Acceptance, Waiver and Consent (“AWC”) for the purpose of proposing a settlement of the alleged rule violations described below. This AWC is submitted on the condition that, if accepted, FINRA will not bring any future actions against Principal Securities alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. Principal Securities hereby accepts and consents, without admitting or denying the findings, and solely for the purposes of this proceeding and any other proceeding brought by or on behalf of FINRA, or to which FINRA is a party, prior to a hearing and without an adjudication of any issue of law or fact, to the entry of the following findings by FINRA:

BACKGROUND

Principal Securities has been a FINRA broker-dealer since July 22, 1968. The Firm conducts a general securities business from its main office, located in Des Moines, Iowa. Principal Securities is an insurance-affiliated broker dealer, and has a total of approximately 825 branch offices and 3,700 registered persons.

RELEVANT DISCIPLINARY HISTORY

The Firm has no relevant disciplinary history.

OVERVIEW

Between July 2013 and February 2015 (the “Relevant Period”), Principal Securities failed to establish, maintain, and enforce a reasonable supervisory system related to the use of consolidated reports provided to customers by its registered representatives. During the Relevant Period, the Firm provided four

consolidated reporting systems for its registered representatives to enter customized values for assets and accounts held away from the Firm into a consolidated report (“manual entries”); Principal Securities however, did not have an adequate supervisory system to review the reports provided to customers. Through this conduct, Principal Securities violated NASD Rule 3010, and FINRA Rules 3110 and 2010.¹

Additionally, during the Relevant Period, the Firm failed to enforce its written supervisory procedures, which required registered representatives to retain all customer correspondence, as well as records related to business transactions and other broker/dealer activities for customers. Specifically, two registered representatives in Principal Securities’ Grand Island, Nebraska branch office failed to retain copies of consolidated reports generated from one of the four above-mentioned reporting systems that permitted manual entries. Through this conduct, Principal Securities violated Section 17 of the Securities Exchange Act of 1934 and Rule 17a-4 thereunder, NASD Rule 3010, and FINRA Rules 3110, 4511, and 2010.

FACTS AND VIOLATIVE CONDUCT

Principal Securities’ Failure to Supervise Certain Consolidated Reports

During the Relevant Period, Principal Securities allowed its registered representatives to use four consolidated reporting systems that permitted manual entries. The Firm, however, did not require the reports to be reviewed by a supervisor before being provided to customers. As a result, there was no supervisory review of the manual entries to the reports.

The Firm's written supervisory procedures required registered representatives to submit correspondence for supervisory review on a monthly basis; the procedures, however, did not classify consolidated reports generated through the four above-mentioned reporting systems as correspondence. Moreover, the Firm’s written supervisory procedures did not address the review of consolidated reports generated by those reporting systems. Thus, Principal Securities did not review the reports provided to customers. Through this conduct, Principal Securities violated NASD Rule 3010, and FINRA Rules 3110 and 2010.

Principal Securities’ Failure to Enforce its Written Supervisory Procedures Regarding Document Retention

Principal Securities’ written supervisory procedures required registered representatives to retain records related to business transactions and certain activities for customers with respect to the Firm’s broker/dealer business.

¹ On December 1, 2014, NASD Rule 3010 was superseded by FINRA Rule 3110. The Firm’s misconduct occurred under both NASD Rule 3010 and FINRA Rule 3110.

Specifically, representatives were required to retain personal financial plans created for customers, any resulting investment advice, and all customer account records. These documents were to be maintained in customer files for at least six years. Two registered representatives from Principal Securities' branch office in Grand Island, Nebraska failed to retain consolidated reports in accordance with Principal Securities' written supervisory procedures.

Through this conduct, Principal Securities failed to enforce its written supervisory procedures, in violation of NASD Rule 3010(b) and FINRA Rules 3110(b) and 2010. Principal Securities also failed to retain certain consolidated reports, in violation of SEC Rule 17a-4, and FINRA Rules 4511 and 2010.

- B. Principal Securities also consents to the imposition of the following sanctions:
1. A censure; and
 2. A fine of \$125,000.

Principal Securities agrees to pay the monetary sanction upon notice that this AWC has been accepted and that such payment is due and payable. Principal Securities has submitted an Election of Payment form showing the method by which it proposes to pay the fine imposed.

Principal Securities specifically and voluntarily waives any right to claim that it is unable to pay, now or at any time hereafter, the monetary sanction imposed in this matter.

The sanctions imposed herein shall be effective on a date set by FINRA staff.

II.

WAIVER OF PROCEDURAL RIGHTS

Principal Securities specifically and voluntarily waive the following rights granted under FINRA's Code of Procedure:

- A. To have a Complaint issued specifying the allegations against the Firm;
- B. To be notified of the Complaint and have the opportunity to answer the allegations in writing;
- C. To defend against the allegations in a disciplinary hearing before a hearing panel, to have a written record of the hearing made and to have a written decision issued; and
- D. To appeal any such decision to the National Adjudicatory Council ("NAC") and

then to the U.S. Securities and Exchange Commission and a U.S. Court of Appeals.

Further, Principal Securities specifically and voluntarily waives any right to claim bias or prejudice of the Chief Legal Officer, the NAC, or any member of the NAC, in connection with such person's or body's participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including acceptance or rejection of this AWC.

Principal Securities further specifically and voluntarily waives any right to claim that a person violated the ex parte prohibitions of FINRA Rule 9143 or the separation of functions prohibitions of FINRA Rule 9144, in connection with such person's or body's participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including its acceptance or rejection.

III.

OTHER MATTERS

Principal Securities understands that:

- A. Submission of this AWC is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by the NAC, a Review Subcommittee of the NAC, or the Office of Disciplinary Affairs ("ODA"), pursuant to FINRA Rule 9216;
- B. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against the Firm; and
- C. If accepted:
 1. this AWC will become part of Principal Securities permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against the Firm;
 2. this AWC will be made available through FINRA's public disclosure program in accordance with FINRA Rule 8313;
 3. FINRA may make a public announcement concerning this agreement and the subject matter thereof in accordance with FINRA Rule 8313; and
 4. Principal Securities may not take any action or make or permit to be made any public statement, including in regulatory filings or otherwise, denying, directly or indirectly, any finding in this AWC or create the impression that the AWC is without factual basis. Principal Securities may not take any position in any proceeding brought by or on behalf of FINRA, or to which FINRA is a party, that is inconsistent with any part of this AWC.


Nothing in this provision affects the Firm's: (i) testimonial obligations; or (ii) right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party.

- D. Principal Securities may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. Principal Securities understands that it may not deny the charges or make any statement that is inconsistent with the AWC in this Statement. This Statement does not constitute factual or legal findings by FINRA, nor does it reflect the views of FINRA or its staff.

The undersigned, on behalf of the Firm, certifies that a person duly authorized to act on its behalf has read and understands all of the provisions of this AWC and has been given a full opportunity to ask questions about it; that Principal Securities has agreed to its provisions voluntarily; and that no offer, threat, inducement, or promise of any kind, other than the terms set forth herein and the prospect of avoiding the issuance of a Complaint, has been made to induce the Firm to submit it.

Respondent Principal Securities, Inc.


11-15-16
Date (mm/dd/yyyy)

By: 
Name: Jennifer A.R. Litchfield
Title: Vice President and Chief Compliance Officer

Accepted by FINRA:

12-21-16
Date

Signed on behalf of the
Director of ODA, by delegated authority


Seema Chawla, Senior Regional Counsel
FINRA Department of Enforcement
120 West 12th Street, Suite 800
Kansas City, MO 64105
Telephone: (816) 802-4712
Facsimile: (816) 421-4519
Email: seema.chawla@finra.org