

**STATE OF ILLINOIS
SECRETARY OF STATE
SECURITIES DEPARTMENT**

IN THE MATTER OF:

**PRUCO SECURITIES, LLC, et al its
managers, officers, affiliates, subsidiaries,
representatives, successors, and assigns.**

File No. 1400274

TO THE RESPONDENT: Pruco Securities, LLC CRD# 5685
751 Broad Street
Newark, NJ 07102-3777

CONSENT ORDER

WHEREAS, Pruco Securities, LLC, on the 19th day of April, 2017 executed a certain Stipulation to Enter into this Consent Order ("Stipulation"), which hereby is incorporated by reference herein.

WHEREAS, by means of the Stipulation, Respondent Pruco Securities, LLC has Consented to the jurisdiction of the Secretary of State, Securities Department and has consented to the entry of this Consent Order.

FACTS COMMON TO ALL COUNTS

Respondent Pruco Securities, LLC, while neither admitting nor denying the truth thereof, acknowledges and agrees to the following findings of fact:

1. Pruco Securities, LLC is a broker-dealer firm registered with the State of Illinois Securities Department as an entity engaged in the business of offering, selling or otherwise engaging in the dealing or trading of securities.
2. In June 2014, the Department conducted audits on Pruco branches located in the State of Illinois. Pruco was asked to provide several items relating to books and records which are required to be maintained by the broker dealer.
3. In September 2014, Pruco responded to a request issued by the Department to produce a spreadsheet detailing the accounts of all Illinois customers who surrendered a variable annuity product (also hereinafter at times referred to as "clients", "investors" and/or "applicants") incurring a surrender charge of \$1,000 or more during the period between July 2013 and July 2014.

4. In November 2014, the Department requested additional documentation related to the information provided by Pruco in September 2014. Pursuant to ongoing discussion between the parties, Pruco, by and through its legal counsel, provided the complete customer files through multiple responses between January and November 2015.

COUNT I

FAILURE TO SUPERVISE

5. Pruco utilizes the Protegent system to facilitate review of variable annuity sales made by its agents. This review is conducted by Pruco's Centralized Transaction Review unit ("CTR"). The Protegent system creates "alerts" that call the CTR reviewer's attention to items needing further review in the proposed transaction. These alerts generated by the Protegent system include, but are not limited to, messages designed to identify the following purchase scenarios: high concentration in deferred variable annuities, contract in a qualified account, level of education and investment experience, and sub-account allocations that do not match the customer's risk tolerance on file. Each Protegent alert has a risk-based weighted score assigned to it. Based on the cumulative score given to each transaction, the reviewer must review and address each of the alerts before approving the transaction, in addition to completing a holistic supervisory review of the customer's application and profile information. Depending on the type of the alert, the reviewer is required to obtain and document additional information from the agent and/or customer.
6. The Department has identified instances or examples where Pruco has failed to reasonably supervise its representatives and reviewers, and enforce its supervisory systems and procedures during the CTR review process for transactions with Illinois customers. These failures caused the approval of certain variable annuity applications which should have required further scrutiny by the reviewer before approval.
7. The Department conducted a review of Pruco's supervision of variable annuities transactions in Illinois, and conducted compliance exams of certain Pruco Illinois branch offices.
8. Upon review of the information provided by Pruco, the Department noted violations of the Illinois Securities Act of 1953 for failure to reasonably supervise its registered representatives and enforce its systems and procedures as they relate to the CTR review process for variable annuity applications by Illinois residents. In the course of its investigation the Department observed examples of variable annuity applications for Illinois customers that it believes were reviewed in a manner inconsistent under Pruco's policies and procedures. These examples include: concurrent or near-concurrent multiple purchases which appear to have been viewed in isolation by the CTR reviewer, transactions which resulted in individual or household concentration in VA products that exceeded 50 percent of the individual or household net worth, citing an applicant's investment "experience" where the applicant's investment history was limited to employer-sponsored retirement plans, inconsistent documentation of commission splits between Pruco representatives on certain VA sales, and transaction review documentation which appeared to have listed inconsistent

income, net worth, and/or liquid net worth information which was provided and confirmed by the Illinois customer in defined ranges on the VA application.

9. Specifically, with respect to the financial information provided by the Illinois customers, the Department found that Pruco relied on a standardized feature in Protegent which created "mid-points" of the ranges provided by the customer, as referenced in Paragraph 8, and with respect to the applicant's income. In certain instances, Pruco used the "annual household income" figure to conduct suitability review where the income did not apply to the individual applicant. By conducting its supervisory review in this manner, the Department found that Pruco's assessment of an Illinois applicant's actual income, net worth, total assets, or liquid net worth may have been inaccurate in certain circumstances.
10. The Department found that in certain of these instances, Illinois customers partially or fully liquidated their VA holdings within 36 months of purchase, where use of more specific financial information may have yielded a different view of the customer's immediate liquidity needs.
11. Section 8.E(1)(e)(i) of the Act states *inter alia* that subject to the provisions of subsection F of Section 11 of this Act, the registration of a dealer may be denied, suspended or revoked if the Secretary of State finds that the dealer has failed to reasonably supervise the securities activities of any of its salespersons or other employees and the failure has permitted or facilitated a violation of Section 12 of this Act.
12. By virtue of the foregoing, Respondent Pruco has violated Section 8.E(1)(e)(i) of the Illinois Securities Law of 1953.

COUNT II

FAILURE TO SUPERVISE

13. As stated above, the Department conducted compliance audits of Pruco branches in June 2014 which were located in the State of Illinois. During these compliance audits, Pruco was asked to provide books and records regarding certain transactions with Illinois residents. Subsequently, the Department made additional regulatory requests, relating to variable annuity transactions in Illinois.
14. In its responses to these audit and regulatory requests, Pruco failed to ensure that certain responsive records were provided to the Department in a timely manner.
15. Pruco failed to have the supervisory structure in place to adequately respond to the Department's regulatory requests regarding variable annuity transactions with Illinois residents.
16. Section 8.E(1)(e)(iv) of the Act states *inter alia* that subject to the provisions of subsection F of Section 11 of this Act, the registration of a dealer may be denied, suspended or revoked if the Secretary of State finds that the dealer has failed to maintain and enforce written

procedures to supervise the types of business in which it engages and to supervise the activities of its salespersons that are reasonably designed to achieve compliance with applicable securities laws and regulations.

17. By virtue of the foregoing, Respondent Pruco has violated Section 8.E(1)(e)(iv) of the Illinois Securities Law of 1953.

CONCLUSIONS OF LAW

WHEREAS, by means of the Stipulation, Respondent Pruco Securities, LLC, while neither admitting nor denying the facts alleged, acknowledges that this Consent Order is a settlement of a disputed action brought by the Secretary of State, Securities Department. Nothing herein shall constitute an admission of fact or law by any party. Respondent Pruco Securities, LLC, while neither admitting nor denying the truth thereof, acknowledges that the following shall be adopted as the Secretary of State's Conclusions of Law:

1. Illinois has jurisdiction over this matter pursuant to the Illinois Securities Law of 1953 [815 ILCS 5] (the "Act");
2. Pruco Securities, LLC has violated Sections 8.E(1)(e)(f) and 8.E(1)(e)(iv) of the Act.

UNDERTAKINGS

WHEREAS, by means of the Stipulation, Pruco Securities, LLC has acknowledged and agreed to the following undertakings:

By means of the Stipulation, Pruco Securities, LLC agrees that the following undertakings will be completed by Pruco within 120 days of this Consent Order:

1. Pruco shall enhance its written supervisory procedures to require all Pruco's Illinois representatives/salespersons receiving a commission on an application/contract or associated with the application/contract, will be clearly identified on the application paperwork;
2. Pruco shall enhance its written supervisory procedures to require CTR reviewers, when the variable annuity concentration alert is triggered in the Protegent system, to document the client's total variable annuity holdings on file with Pruco;
3. Pruco shall enhance its written supervisory procedures to require the CTR reviewer to use the low-end figures of the net worth, liquid net worth, total assets, annual income, and household income ranges provided by Illinois customers on variable annuity applications to determine suitability, and shall not rely on the Illinois applicant's "midpoints" of worth and income calculated in the Protegent system to determine suitability or use household income that does not apply to an individual account applicant;

4. Pruco shall enhance its written supervisory procedures and conduct advanced training requiring application reviewers to screen and accurately characterize an Illinois applicant's actual investment experience and/or education before using said experience or education as a determining factor in approving the application. This may include, but will not be limited to, contacting the applicant to determine and verify the applicant's experience and education. This determination and verification shall be documented in the Protegent system;
5. Pruco shall enhance its written supervisory procedures to implement a retrospective quarterly look-back review of certain VA surrender transactions by Illinois residents, determined by risk-based parameters, to determine the reasons for the surrender, how soon the product was surrendered from purchase, and whether any alerts were generated during the application process of the variable annuity product. Pruco shall maintain records of such reviews;
6. Pruco shall enhance its written supervisory procedures to streamline and escalate any and all complaints received from Illinois residents by Pruco regarding VA surrender charges;
7. Pruco shall enhance its written supervisory procedures to designate and identify a Pruco employee/agent as the "Legal Point of Contact" responsible for responding to all Department requests relating to any subpoena requests, audits, and other regulatory inquiries to guarantee the complete and accurate dissemination of materials requested by the Department.

NOW THEREFORE, IT IS HEREBY ORDERED THAT:

1. Pursuant to the terms of the Stipulation, Respondent **Pruco Securities, LLC** (Prudential) is publically censured for violating Sections 8.E(1)(e)(i) and 8.E(1)(e)(iv) of the Illinois Securities Law of 1953.
2. Pursuant to the terms of the Stipulation, Respondent **Pruco Securities, LLC** (Prudential) **SHALL** make an offer of restitution to certain transactions with Illinois investors which were determined to be eligible for restitution based upon documentation of the customer's VA concentration at the time of sale, as identified in an Exhibit to the Stipulation and in the amounts stated therein. The Department notes Pruco's remediation in this matter is inclusive of restitution already undertaken in advance of the Stipulation. This payment or waiver shall be made in accordance with the following:
 - a. Pruco Securities, LLC shall mail offers of restitution as set forth above within 30 business days from the date of the Consent Order, and upon receipt of countersigned offer (the form of which shall be approved by the Department), payment shall be made by check mailed to the investor's address of record or, if currently a Pruco client, it may be made by electronic payment.

- b. The Chief Executive Officer or President of Pruco Securities, LLC shall, within 120 calendar days of entry of the Consent Order, submit satisfactory proof of payment of restitution. Said submission shall be mailed or delivered to the Illinois Securities Department, 69 West Washington, Suite 1220, Chicago, IL 60602 and referencing case # 1400274.
 - c. Pruco shall keep each restitution offer open for 90 days after its mailing. If for any reason Pruco Securities, LLC is unable to locate or obtain the agreement of any client after reasonable and documented efforts within 120 calendar days of entry of this Consent Order, or such additional period agreed to by a Department staff member in writing, Pruco Securities, LLC shall forward any undistributed restitution to the appropriate escheat, unclaimed property or abandoned property fund for the state in which the client was last known to have resided. Pruco Securities, LLC shall provide satisfactory proof of such action to the Department, in the manner described above, within 10 business days of forwarding the undistributed restitution to the appropriate state authority.
3. By means of stipulation, and within 10 days of the entry of this Order, Respondent **Pruco Securities, LLC** SHALL pay a fine of \$750,000 for failure to reasonably supervise its representatives and salespersons in violation of Sections 8.E(1)(e)(i) and 8.E(1)(e)(iv) of the Illinois Securities Law of 1953, and shall be made payable to the Office of the Secretary of State, Securities Audit and Enforcement Fund located at 69 West Washington, Suite 1220, Chicago, IL 60602 and referencing case # 1400274.
 4. By means of stipulation, and within 10 days of the entry of this Order, Respondent **Pruco Securities, LLC** SHALL pay costs of the investigation in the amount of \$150,000, and shall be made payable to the Office of the Secretary of State, Securities Audit and Enforcement Fund located at 69 West Washington, Suite 1220, Chicago, IL 60602 and referencing case # 1400274.

This Order is not intended to be a final order based upon violations of any laws or regulations that prohibit fraudulent, manipulative, or deceptive conduct. Furthermore, the Order waives any disqualification in the Illinois laws, or rules or regulations hereunder, including any disqualifications from relying upon the registration exemptions or safe harbor provisions to which Pruco or any of its affiliates may be subject. This Order is not intended to form the basis of any disqualifications under Section 3(a)(39) of the Securities Exchange Act of 1934 or Rule 506 of the Regulation D under the Securities Act of 1933. This Order is not intended to form the basis of disqualification under the FINRA rules prohibiting continuance in membership absent the filing of a MC-400A application or disqualification under the SRO rules prohibiting continuance in membership. This Order is not intended to form a basis of a disqualification under Section 204(a)(2) of the Uniform Securities Act of 1956 or Section 412(d) of the Uniform Securities Act of 2002.

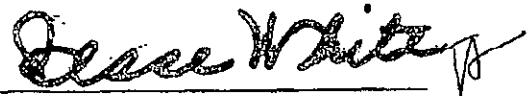
NOTICE: Failure to comply with the terms of this Order shall be a violation of Section 12.D of the Illinois Securities Law of 1953, as amended, 815 ILCS 5/1 et seq. (the "Act"). Any person or entity who fails to comply with the terms of this Order of the Secretary of State, having knowledge of the existence of this Order, shall be guilty of a Class 4 felony.

This is a Final Order subject to judicial review pursuant to the Administrative Review Law, 735 ILCS 5/3-101 et seq. and the Rules and Regulations of the Act (14 Ill. Admin. Code, Ch. I, Sec. 130.1123. Any action for judicial review must be commenced within thirty-five (35) days from the date a copy of this Order is served upon the party seeking review. Mailing of this Order to the Respondent or representative of record constitutes service of the Order.

The Notice of Hearing dated April 20, 2017, as it relates to Respondents Pruco Securities, LLC will be dismissed without further proceedings upon full satisfaction of all obligations set forth in this Order.

The entry of this Consent Order ends the Secretary of State, Securities Department's formal hearing of this matter.

Date of Mailing: 20th day of April 2017.



JESSE WHITE
Secretary of State
State of Illinois

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