

Prudential Investment Management Services LLC

**Financial Statements and
Supplementary Information
December 31, 2020**

SEC ID No. 8-36540

This report is deemed CONFIDENTIAL in accordance with Rule 17a-5(e)(3) under the Securities Exchange Act of 1934. A statement of financial condition bound separately has been filed with the Securities and Exchange Commission simultaneously herewith as a Public Document.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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**ANNUAL AUDITED REPORT
FORM X-17A-5
PART III**

SEC FILE NUMBER
8-36540

FACING PAGE

**Information Required of Brokers and Dealers Pursuant to Section 17 of the
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder**

REPORT FOR THE PERIOD BEGINNING 01/01/20 AND ENDING 12/31/20
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: Prudential Investment Management Services LLC OFFICIAL USE ONLY
ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)
655 Broad Street, 19th Floor
(No. and Street)
Newark NJ 07102
(City) (State) (Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT
Robert Smit 973-367-1238
(Area Code – Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

PricewaterhouseCoopers LLP

(Name – if individual, state last, first, middle name)
300 Madison Avenue New York NY 10017
(Address) (City) (State) (Zip Code)

CHECK ONE:

- ☒ Certified Public Accountant
☐ Public Accountant
☐ Accountant not resident in United States or any of its possessions.

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*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

OATH OR AFFIRMATION

I, Robert Smit, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Prudential Investment Management Services LLC, as of December 31, 2020, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

Based upon the Division of Trading and Markets Staff Statement regarding requirements for certain paper submissions in light of COVID-19 concerns and the difficulties arising from COVID-19, Prudential Investment Management Services LLC is making this filing without a notarization.

DocuSigned by:

Robert Smit

CCA4F999CADC400... Signature

Chief Financial Officer

Title

Notary Public

This report ** contains (check all applicable boxes):

- ☒ (a) Facing Page.
- ☒ (b) Statement of Financial Condition.
- ☒ (c) Statement of Income (Loss) or, if there is other comprehensive income in the period(s) presented, a Statement of Comprehensive Income (as defined in §210.1-02 of Regulation S-X).
- ☐ (d) Statement of Changes in Financial Condition.
- ☒ (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- ☐ (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- ☒ (g) Computation of Net Capital.
- ☒ (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- ☒ (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- ☐ (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- ☐ (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- ☒ (l) An Oath or Affirmation.
- ☒ (m) A copy of the SIPC Supplemental Report.
- ☐ (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.
- ☒ (o) Statement of Cash Flows

**For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).

Prudential Investment Management Services LLC

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December 31, 2020

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Report of Independent Registered Public Accounting Firm

To the Operating Committee and Member of Prudential Investment Management Services LLC:

Opinion on the Financial Statements

We have audited the accompanying statement of financial condition of Prudential Investment Management Services LLC (the "Company") as of December 31, 2020, and the related statements of income, changes in member's equity, and cash flows for the year then ended, including the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit of these financial statements in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud.

Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as, evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Supplemental Information

The accompanying Computation of Net Capital Pursuant to Rule 15c3-1 Under the Securities Exchange Act of 1934, Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3 Under the Securities Exchange Act of 1934, and Information Relating to Possession or Control Requirements Pursuant to Rule 15c3-3 Under the Securities Exchange Act of 1934 as of December 31, 2020 (collectively, the "supplemental information") have been subjected to audit procedures performed in conjunction with the audit of the Company's financial statements. The supplemental information is the responsibility of the Company's management. Our audit procedures included determining whether the supplemental information reconciles to the financial statements or the underlying accounting and other records, as applicable, and performing procedures to test the completeness and accuracy of the information presented in the supplemental information. In forming our opinion on the supplemental information, we evaluated whether the supplemental information, including its form and content, is presented in conformity with Rule 17a-5 under the Securities



Exchange Act of 1934. In our opinion, the supplemental information is fairly stated, in all material respects, in relation to the financial statements as a whole.

PricewaterhouseCoopers LLP

New York, New York
February 25, 2021

We have served as the Company's auditor since 1996.

Prudential Investment Management Services LLC
Statement of Financial Condition
December 31, 2020

(dollars in thousands)

Assets

Cash and cash equivalents	\$ 33,823
Cash segregated under federal regulations	22,464
Distribution and service fees receivable	14,567
Receivable from broker-dealers and clearing organizations	1,129
Receivable from affiliates	7,327
Prepaid expenses and other assets	4,968
Federal and state income taxes receivable from parent	1,942
Total assets	<u>86,220</u>

Liabilities and Member's Equity

Liabilities

Payable to broker-dealers and clearing organizations	6,560
Payable to affiliates and other accrued liabilities	4,914
Payable to customers	10,006
Federal and state deferred tax liabilities to parent	154
Total liabilities	<u>21,634</u>

Commitments and contingent liabilities (see Note 7)

Member's Equity

Contributed capital	32,796
Undistributed earnings	31,790
Total member's equity	<u>64,586</u>
Total liabilities and member's equity	<u>\$ 86,220</u>

The accompanying notes are an integral part of these financial statements.

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Prudential Investment Management Services LLC

Statement of Income

Year Ended December 31, 2020

(dollars in thousands)

Revenues

Distribution and service fee income	\$ 134,919
Commission income	96,064
Management and administrative fee income	2,985
Other income	1,657
Total revenues	<u>235,625</u>

Expenses

Commission expense	113,245
Distribution and service fee expenses	90,705
Licenses and regulatory expenses	5,107
Other operating expenses	34,662
Total expenses	<u>243,719</u>

Income (loss) before provision for income taxes	(8,094)
Provision (benefit) for income taxes	<u>(2,000)</u>
Net income (loss)	<u><u>\$ (6,094)</u></u>

The accompanying notes are an integral part of these financial statements.

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Prudential Investment Management Services LLC
Statement of Changes in Member's Equity
Year Ended December 31, 2020

(dollars in thousands)

	Contributed Capital	Undistributed Earnings	Total Member's Equity
Balance, December 31, 2019	\$ 32,796	\$ 37,884	\$ 70,680
Net income (loss)		(6,094)	(6,094)
Balance, December 31, 2020	<u>\$ 32,796</u>	<u>\$ 31,790</u>	<u>\$ 64,586</u>

The accompanying notes are an integral part of these financial statements.

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Prudential Investment Management Services LLC

Statement of Cash Flows

Year Ended December 31, 2020

(dollars in thousands)

Cash flows from operating activities

Net income (loss) \$ (6,094)

Adjustments to reconcile net income to net cash used in operating activities

Federal and state deferred income tax (58)

(Increase) decrease in operating assets:

Distribution and service fees receivable 9

Receivable from broker-dealers and clearing organizations 1,120

Receivable from affiliates 861

Prepaid expenses and other assets 482

Federal and state income taxes receivable from parent (1,942)

Increase (decrease) in operating liabilities:

Payable to broker-dealers and clearing organizations 357

Payable to affiliates and other accrued liabilities (1,480)

Payable to customers (439)

Federal and state income taxes payable to parent (653)

Net cash used in operating activities (7,837)

Net decrease in cash, cash equivalents and cash segregated under federal regulations (7,837)

Cash, cash equivalents and cash segregated under federal regulations

Beginning of year 64,124

End of year \$ 56,287

Supplemental cash flow disclosures

Cash paid to parent during the year for income taxes \$ 653

The accompanying notes are an integral part of these financial statements.

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Prudential Investment Management Services LLC

Notes to Financial Statements

December 31, 2020

(dollars in thousands)

1. Organization and Nature of Business

Prudential Investment Management Services LLC ("PIMS" or the "Company") is a wholly-owned subsidiary of PIFM Holdco LLC, ("PHI"), which is an indirect wholly-owned subsidiary of Prudential Financial, Inc. ("Prudential"). The Company is a registered broker-dealer subject to the rules and regulations of the Securities and Exchange Commission ("SEC") and is a member of the Financial Industry Regulatory Authority, Inc. ("FINRA").

The Company's primary business is the distribution of mutual funds to retail investors through third party financial intermediary firms. The Company also sells various other investment products to institutional investors including private placements and variable life contracts, and distributes participant-directed group variable annuities and mutual funds to retirement plans.

The Company is also engaged in limited retail selling activities through the offering of various investment products sponsored by third parties and affiliates for rollover distributions from benefit plans of clients of Prudential. The Company offers general brokerage services to retail investors. Investment products offered to customers include, but are not limited to, stocks, bonds, mutual funds and options. With respect to custody and clearing of these customer securities transactions, except for mutual fund transactions in the Smart Solutions IRA product, the Company introduces these transactions to National Financial Services, LLC who clears them on a fully disclosed basis.

The Company is the distributor of the Prudential Investments domestic family of mutual funds shares ("Pru Funds"), which have adopted Plans of Distribution pursuant to Rule 12b-1 under the Investment Company Act of 1940.

The Company has also entered into selling agreements with unaffiliated mutual fund families whereby the Company receives distribution and service fees and commissions for sales of mutual fund products to defined contribution retirement plan clients of Prudential ("DC Plans"). The Company acts as the clearing broker for all mutual fund trades for both proprietary and non-proprietary mutual fund families with respect to the DC Plans business.

As more fully described in Note 5, the Company has various agreements with Prudential companies relating to reimbursements of expenses, including services of officers, the use of telecommunications, office space, systems and equipment. The agreement terms may not be the same as those that would result from agreements with unrelated parties. The accompanying financial statements may not be indicative of the financial condition or the results of operations if the Company had been operated as an unaffiliated entity.

2. Summary of Significant Accounting Policies

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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Prudential Investment Management Services LLC

Notes to Financial Statements

December 31, 2020

(dollars in thousands)

The Company defines cash and cash equivalents as amounts due from banks and from money market mutual funds. Cash and cash equivalents of \$33,823 includes a \$18,665 investment in a non-proprietary money market mutual fund. The remaining \$15,158 represents amounts on deposit in corporate accounts at commercial banks. The Company earned investment income of \$149 from these cash balances in 2020 which is included in *Other income*. Cash of \$22,464 has been segregated in a special reserve bank account for the exclusive benefit of customers under SEA Rule 15c3-3 and is classified as Cash segregated under federal regulations.

Commission income and the related expense is recorded on a trade date basis and includes commissions associated with the sale of mutual funds and private placements. Contingent deferred sales charges ("CDSC") are earned upon investor redemption of mutual funds shares and are accrued at month end for those transactions that have not yet settled.

Distribution and service fee income includes fees earned from the distribution of Pru Funds and mutual funds of unaffiliated families. Distribution and service fee expenses include trailer expense and the amortization of previously deferred commissions paid to broker-dealers on Class C shares of Pru Funds. Distribution and service fee income and service fee expenses are accrued monthly on a trade date basis.

The Company pays commissions to broker-dealers that sell Class C shares of Pru Funds and receives either distribution or CDSC fees relating to these funds. The Company has an agreement with its parent, PHI, to finance its expected future monthly cash receipts from distribution and CDSC fees in exchange for cash. Financing under this agreement is on a sole recourse basis, with the Company required to repay PHI if the Company receives the distribution and CDSC fees. As of December 31, 2020, the Company recorded expected future cash receipts and the related financing provided of \$2,987 for Class C shares of Pru Funds.

In accordance with federal and applicable state tax laws, the Company is treated as a branch of its single member ultimate owner, PFI. It is included in the consolidated federal income tax return and certain consolidated and combined state income tax returns of Prudential.

Pursuant to the Prudential tax allocation agreement, total federal and state income tax expense or benefit is determined on a separate company basis. Members with losses record current tax benefits to the extent such losses are recognized in the consolidated federal tax provisions. Deferred taxes are generally recognized when assets and liabilities have different values for financial statement and tax reporting purposes. A valuation allowance is recorded to reduce a deferred tax asset to the amount expected to be realized.

Deferred income taxes are recognized, based on enacted rates, when assets and liabilities have different values for financial statement and tax reporting purposes. The application of U.S. GAAP requires the Company to evaluate the recoverability of the Company's deferred tax assets and establish a valuation allowance, if necessary, to reduce the Company's deferred tax assets to an amount that is more-likely-than-not to be realized. Considerable judgment is required in determining whether a valuation allowance is necessary, and if so, the amount of such valuation allowance. Although realization is not assured, management believes it is more-likely-than-not that the deferred tax assets, net of valuation allowances, will be realized.

ASC 740 requires the Company to account for unrecognized tax benefits, interest and penalties which relate to tax years still subject to review by the Internal Revenue Service ("IRS") or other taxing jurisdictions. Audit periods remain open for review until the statute of limitations has passed.

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Prudential Investment Management Services LLC

Notes to Financial Statements

December 31, 2020

(dollars in thousands)

Generally, for tax years which produce net operating losses, capital losses or tax credit carry forwards (“tax attributes”), the statute of limitations does not close, to the extent of these tax attributes, until the expiration of the statute of limitations for the tax year in which they are fully utilized. The completion of review or the expiration of the statute of limitations for a given audit period could result in an adjustment to the liability for income taxes. The Company classifies all interest and penalties related to tax uncertainties as income tax expense.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”) was enacted into law. One provision of the CARES Act amends the Tax Act of 2017 and allows companies with net operating losses (“NOLs”) originating in 2018, 2019 or 2020 to carry back those losses for five years. In addition, the CARES Act permits corporate taxpayers to elect to accelerate the refund schedule for any remaining Alternative Minimum Tax (“AMT”) credits that otherwise would become incrementally refundable from 2018 through 2021. The CARES Act permits claiming the refund in full in either 2018 or 2019. Enactment of the CARES Act did not have a financial impact on the Company.

See Note 4 for additional information regarding income taxes.

Changes to U.S. GAAP are established by the Financial Accounting Standards Board (“FASB”) in the form of accounting standards updates (“ASU”) to the FASB Accounting Standards Codification (“ASC”).

Commission income and *Distribution and service fee income* (which are recognized in the period in which the services are performed) principally include asset-based mutual fund sales and distribution related revenue. The Company records this revenue when the contractual terms of the fee arrangement have been satisfied and it is probable that a significant reversal in the amount of the fee will not occur.

The Company accounts for estimated credit losses on financial assets measured at an amortized cost basis and certain off-balance sheet credit exposures in accordance with FASB ASC 326, Financial Instruments – Credit Losses. FASB ASC 326 requires the Company to estimate expected credit losses over the life of its financial assets and certain off-balance sheet exposures as of the reporting date based on relevant information about past events, current conditions, and reasonable and supportable forecasts. The Company may be exposed to credit risk regarding its receivables, which are primarily receivables from broker-dealers, clearing organizations and mutual funds. The Company evaluated the nature of the receivables, historical collection experience and duration and other specific data. The company determined that due to the short duration of the receivables and history of collections that any current expected credit losses would be immaterial to the financial statements.

The FASB has issued several other standards with varying effective dates. None of these are expected to materially impact the Company.

3. Fair Value Assets and Liabilities

Fair Value Measurement—Fair value represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The authoritative fair value guidance establishes a framework for measuring fair value that includes a hierarchy used to classify the positions measured at fair value based on the level of observability of the inputs used in measuring fair value. The level in the fair value hierarchy within

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Prudential Investment Management Services LLC

Notes to Financial Statements

December 31, 2020

(dollars in thousands)

which the fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement. The levels of the fair value hierarchy are as follows:

Level 1—Fair value is based on unadjusted quoted prices in active markets that are accessible to the Company for identical assets or liabilities. The Company's Level 1 assets represent an investment in a non-proprietary money market mutual fund for which the Company is the exclusive distributor.

Level 2—Fair value is based on significant inputs, other than quoted prices included in Level 1, that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability through corroboration with observable market data. Level 2 inputs include quoted market prices in active markets for similar assets and liabilities, quoted market prices in markets that are not active for identical or similar assets and liabilities, and other market observable inputs.

Level 3—Fair value is based on at least one or more significant unobservable inputs for the asset or liability. The assets and liabilities in this category may require significant judgment or estimation in determining the fair value. The Company does not have any Level 3 assets or liabilities.

The table below presents the balances of assets measured at fair value on a recurring basis. There were no liabilities carried at fair value.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
Cash equivalents (money market mutual fund)	\$ 18,665	\$ —	\$ —	\$ 18,665

The table below presents the carrying amount and fair value by hierarchy level of certain financial instruments that are not reported at fair value; however, as described below, the carrying amount equals or approximates fair value. The Company did not have any transfers between the levels during the year ended December 31, 2020.

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Prudential Investment Management Services LLC

Notes to Financial Statements

December 31, 2020

(dollars in thousands)

	Fair Value				Carrying Amount
	Level 1	Level 2	Level 3	Total	Total
Assets					
Cash	\$ 15,158	\$ —	\$ —	\$ 15,158	\$ 15,158
Cash segregated under federal regulations	22,464	—	—	22,464	22,464
Distribution and service fees receivable	—	14,567	—	14,567	14,567
Receivable from broker-dealers and clearing organizations	—	1,129	—	1,129	1,129
Receivable from affiliates	—	7,327	—	7,327	7,327
Prepaid expenses and other assets	—	4,968	—	4,968	4,968
Federal and state income taxes receivable from parent	—	1,942	—	1,942	1,942
Total assets	\$ 37,622	\$ 29,933	\$ —	\$ 67,555	\$ 67,555
Liabilities					
Payable to broker-dealers and clearing organizations	\$ —	\$ 6,560	\$ —	\$ 6,560	\$ 6,560
Payable to affiliates and other accrued liabilities	—	4,914	—	4,914	4,914
Payable to customers	—	10,006	—	10,006	10,006
Federal and state deferred tax liabilities to parent	—	154	—	154	154
Total liabilities	\$ —	\$ 21,634	\$ —	\$ 21,634	\$ 21,634

Due to the short-term nature of the assets and liabilities listed above, the Company believes that the carrying values approximate fair value.

4. Income Taxes

The components of income tax expense (benefit) for the year ended December 31, 2020 are as follows:

Tax Expense (Benefit)	Current	Deferred	Total
Federal	\$ (1,586)	\$ (33)	\$ (1,619)
State	(356)	(25)	(381)
Total tax expense (benefit)	\$ (1,942)	\$ (58)	\$ (2,000)

The difference between the effective tax rate of 24.71% and the federal statutory income tax rate of 21% is primarily attributable to state income tax.

The Company has a deferred tax liability of \$154 related to deferred acquisition costs at December 31, 2020.

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Prudential Investment Management Services LLC

Notes to Financial Statements

December 31, 2020

(dollars in thousands)

The application of U.S. GAAP requires the Company to evaluate the recoverability of deferred tax assets and establish a valuation allowance, if necessary, to reduce the deferred tax asset to an amount that is more likely than not expected to be realized. As of December 31, 2020, the Company does not require a valuation allowance for its deferred tax assets.

U.S. GAAP prescribes a comprehensive model for how a company should recognize, measure, present, and disclose in its financial statements uncertain tax positions that a company has taken or expects to take on its tax returns. The Company does not have any unrecognized tax benefits at December 31, 2020.

The Company files a consolidated Federal income tax return with its parent. The tax years that remain subject to examination by the Internal Revenue Service at December 31, 2020 are 2014 through 2020.

The Company participates in the IRS's Compliance Assurance Program ("CAP"). Under CAP, the IRS assigns an examination team to review completed transactions as they occur in order to reach agreement with the Company on how they should be reported in the relevant tax returns. If disagreements arise, accelerated resolution programs are available to resolve the disagreements in a timely manner before the tax return is filed.

5. Related Party Transactions

In 2020, the Company earned commission income and management and administrative fee income from Prudential companies. The Company also earned distribution and service fee income from the Pru Funds as compensation. The Company incurred commission expense, distribution and service fee expense to Prudential companies for the sale of mutual fund products.

The Company is the clearing broker for the Prudential retirement plan platform DC Plans' mutual fund trades.

The Company has an arrangement with an affiliated broker-dealer, Pruco Securities, LLC ("Pruco") whereby the Company pays Pruco commissions for the sale of Pru Funds.

The Company has an agreement with PHI to finance its expected monthly cash receipts related to certain distribution and CDSC fees. The amount payable to PHI under this agreement at December 31, 2020 was \$2,987 and is included in *Payable to affiliates and other accrued liabilities*. See Note 2 for further details.

The Company receives various services from Prudential companies including services of officers and the use of telecommunications, office space, systems and equipment. The costs of these services, which are included in *Other operating expenses*, are allocated to the Company pursuant to service agreements with Prudential companies. In most cases, payments due to the Company from affiliated entities and payments due to affiliates were effected by The Prudential Insurance Company of America on behalf of the Company. In all other cases, the Company receives and remits payment directly from/to affiliated entities.

Certain balances included in *Payable to affiliates and other accrued liabilities*, on the Statement of Financial Condition, have been recorded net in accordance with ASC 210-20 and there is no cross-netting between different affiliated entities.

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Prudential Investment Management Services LLC

Notes to Financial Statements

December 31, 2020

(dollars in thousands)

It is noted that balances included below may not agree to the face of the financial statements as these amounts are settled through our affiliated entities although the Company may be contractually liable to a third party.

At December 31, 2020 and for the year then ended, the Company had the following statement of financial condition and statement of income related party balances and activity:

Statement of Financial Condition	Receivables	Payables
Distribution and service fees receivable	\$ 11,400	\$ —
Payable to broker-dealers and clearing organizations	—	5,212
Payable to customers	—	10,006
Receivable from/payable to affiliates	7,327	4,307
Prepaid expenses and other assets	2,987	—
Federal and state income taxes receivable from parent	1,942	—
Federal and state deferred tax liabilities	—	154
	<u>\$ 23,656</u>	<u>\$ 19,679</u>

Statement of Income	Income	Expense
Distribution and service fee income and expenses	\$ —	\$ 90,705
Commission income and expenses	66,517	72,541
Management and administrative fee income	2,755	—
Licenses and regulatory expenses	—	2,092
Other income/operating expenses	600	34,635
Provision (benefit) for income taxes	—	(2,000)
	<u>\$ 69,872</u>	<u>\$ 197,973</u>

6. Line of Credit

The Company has a \$250,000 open-ended line of credit with an affiliate, Prudential Funding, LLC. Borrowings under the line of credit will bear interest at the prevailing Commercial Paper rate at the time of the advance plus 24 basis points. The Company had no borrowings during 2020, and as of December 31, 2020, there were no amounts outstanding under the line of credit.

7. Commitments and Contingent Liabilities

The Company is subject to legal and regulatory actions in the ordinary course of its business. Management of the Company, after consultation with its legal counsel, believes that the ultimate resolution of any pending litigation and regulatory matters should not have any material adverse effect on the Company's financial statements.

The Company's internal supervisory and control functions review the quality of sales and other customer interface procedures and practices and may recommend modifications or enhancements. In certain cases, if appropriate, the Company may offer customers remediation and may incur charges, including the cost of such remediation, administrative costs and regulatory fines. As of December 31, 2020, there were no such amounts recorded by the Company.

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Prudential Investment Management Services LLC

Notes to Financial Statements

December 31, 2020

(dollars in thousands)

8. Regulatory Requirements

The Company is subject to the Uniform Net Capital Rule (Rule 15c3-1), pursuant to the Securities Exchange Act of 1934. The Company uses the alternative method of computing net capital, permitted by the Rule, which requires the Company to maintain a minimum net capital as defined, equal to the greater of \$250 or 2 percent of aggregate debit balances arising from customer transactions. At December 31, 2020, the Company had net capital of \$44,577, which was \$44,327 in excess of its required net capital.

The Company is subject to the Customer Protection Rule (Rule 15c3-3) of the Securities Exchange Act of 1934. At December 31, 2020, the Company computed the reserve requirement for customers and was required to segregate \$10,022 in the special reserve bank account for the exclusive benefit of customers. At December 31, 2020, the amount held on deposit in the special reserve bank account was \$22,464.

9. Subsequent Events

The Company has evaluated and determined that no events or transactions occurred after December 31, 2020 and through the issuance date, February 25, 2021, of these financial statements that would require recognition or disclosure in these financial statements.

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Prudential Investment Management Services LLC
Computation of Net Capital Pursuant to Rule 15c3-1
Under the Securities Exchange Act of 1934
December 31, 2020

Schedule I

(dollars in thousands)

Net Capital

Total member's equity	\$ 64,586
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Deductions and/or charges:

Non-allowable assets

Distribution and service fees receivable	8,361
Receivable from broker-dealers and clearing organizations	52
Receivable from affiliates	7,327
Prepaid expenses and other assets	3,896
	<u>19,636</u>

Net capital before haircuts on securities positions	44,950
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Haircuts on securities

Money market mutual fund	373
Net Capital	<u>\$ 44,577</u>

Calculation of excess net capital

Net capital	44,577
Less minimum net capital requirement (2% of aggregate debit items in Rule 15c3-3 Formula for Reserve Requirements, or \$250, whichever is greater)	250
Excess net capital	<u>\$ 44,327</u>

Statement Pursuant to Paragraph (d) (4) of Rule 17a-5 of the Securities and Exchange Commission

There are no differences between the above computation and the computation included in the Company's unaudited Part II FOCUS Report as of December 31, 2020, filed on January 27, 2021.

CONFIDENTIAL

Prudential Investment Management Services LLC
Computation for Determination of Reserve Requirements
Pursuant to Rule 15c3-3 Under the Securities Exchange Act of 1934
December 31, 2020

Schedule II

(dollars in thousands)

Credit balances

Free credit balances and other credit balances in customers' securities accounts	\$ 10,006
Other	16
Total credit items	<u>10,022</u>

Debit balances

Failed to deliver of customers' securities not older than 30 calendar days (including debit balances in continuous net settlement accounts)	—
Gross debit items	—
Less 3 percent charge	—
Total debit items	<u>—</u>

Reserve computation

Excess of total credits over total debits	<u>10,022</u>
Amount held on deposit in "reserve bank account" at end of reporting period	\$ 22,464
Excess funds on deposit in the special reserve bank account	<u>\$ 12,442</u>

Statement Pursuant to Paragraph (d) (4) of Rule 17a-5 of the Securities and Exchange Commission

There are no differences between the above computation and the computation included in the Company's unaudited Part II FOCUS Report as of December 31, 2020, filed on January 27, 2021.

CONFIDENTIAL

Prudential Investment Management Services LLC
Information Relating to Possession or Control Requirements
Pursuant to Rule 15c3-3 Under the Securities Exchange Act of 1934
December 31, 2020

Schedule III

(dollars in thousands except number of items)

- 1 Customers' fully paid and excess margin securities not in the respondent's possession or control as of the report date (for which instructions to reduce to possession or control had been issued as of the report date but for which the required action was not taken by respondent within the time frames specified under Rule 15c3-3):

\$ —
—

A. Number of items

- 2 Customers' fully paid and excess margin securities for which instructions to reduce to possession or control had not been issued as of the report date, excluding items arising from temporary lags which result from normal business operations as permitted under Rule 15c3-3:

\$ —
—

A. Number of items

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