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

SEC Mail Processing  
 FEB 28 2018  
 Washington, DC

SEC FILE NUMBER
8-36472

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 01/01/2018 AND ENDING 12/31/2018  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: **Spectrum Asset Management, Inc.**

*DBA / Sami Brokerage LLC*  
 ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

OFFICIAL USE ONLY
FIRM I.D. NO.

2 High Ridge Park

(No. and Street)

Stamford

CT

06905

(City)

(State)

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

Jennifer Simpson 203-321-1137

(Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

Ernst & Young LLP

(Name - if individual, state last, first, middle name)

801 Grand Avenue

Des Moines

IA

50309

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

Certified Public Accountant

Public Accountant

Accountant not resident in United States or any of its possessions.

**FOR OFFICIAL USE ONLY**

\*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)

SEC 1410 (11-05)

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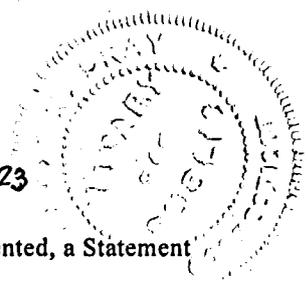
OATH OR AFFIRMATION

I, Jean M. Orlando, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Spectrum Asset Management, Inc., as of December 31, 2018, 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:

J.M. Orlando
Signature
CFO - FinOP
Title

Nancy K. Dray
Notary Public

NANCY K. DRAY
Notary Public
My Commission Expires November 30, 2023



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) Exemption Report

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

Spectrum Asset Management, Inc.  
Financial Statements and  
Supplemental Information

Year Ended December 31, 2018

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## Report of Independent Registered Public Accounting Firm

To the Board of Directors of Spectrum Asset Management, Inc.

### Opinion on the Financial Statements

We have audited the accompanying statement of financial condition of Spectrum Asset Management, Inc. (the Company) as of December 31, 2018, the related statements of operations, changes in stockholder's equity, and cash flows for the year then ended, and 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 at December 31, 2018 and the results of its operations and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

### 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 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 information contained in Schedules I, II and III has been subjected to audit procedures performed in conjunction with the audit of the Company's financial statements. Such information is the responsibility of the Company's management. Our audit procedures included determining whether the 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. In forming our opinion on the information, we evaluated whether such 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 information is fairly stated, in all material respects, in relation to the financial statements as a whole.

*Ernst + Young LLP*

We have served as the company's auditor since 2001.

Des Moines, IA  
February 26, 2019

Spectrum Asset Management, Inc.

Statement of Financial Condition  
December 31, 2018

<b>Assets</b>	
Cash and cash equivalents	\$ 6,355,026
Management fees and commissions receivable:	
Affiliated	1,681,537
Non-affiliated	2,725,225
Fixed assets, net	73,680
Income taxes receivable from affiliates	815,796
Deferred income taxes	1,239,342
Other assets	18,245
Total assets	<u>\$ 12,908,850</u>
<b>Liabilities and stockholder's equity</b>	
Liabilities:	
Accounts payable	\$ 159,232
Accrued compensation	5,040,852
Income taxes payable to affiliates	603,224
Due to affiliates	125,382
Total liabilities	<u>5,928,689</u>
Stockholder's equity:	
Common stock, no par value – 100,000 shares authorized, issued and outstanding	663,500
Additional paid-in capital	1,019,874
Retained earnings	5,296,787
Total stockholder's equity	<u>6,980,161</u>
Total liabilities and stockholder's equity	<u>\$ 12,908,850</u>

*See accompanying notes.*

Spectrum Asset Management, Inc.

Statement of Operations  
Year Ended December 31, 2018

<b>Revenues</b>	
Management fees	\$ 49,853,400
Commissions	42,791
Interest income	3,068
Net realized foreign currency translation gain	5,007
Total revenues	<u>49,904,267</u>
<b>Expenses</b>	
Compensation and related expense	22,374,506
Other operating expenses	4,326,818
Total expenses	<u>26,701,324</u>
Income before income tax expense	23,202,943
Income tax expense	5,307,158
Net income	<u>\$ 17,895,785</u>

*See accompanying notes.*

Spectrum Asset Management, Inc.

Statement of Changes in Stockholder's Equity  
Year Ended December 31, 2018

	<b>Common Stock</b>	<b>Additional Paid-In Capital</b>	<b>Retained Earnings</b>	<b>Total Stockholder's Equity</b>
Balance at January 1, 2018	\$ 663,500	\$ 976,527	\$ 5,182,063	\$ 6,822,090
Net income	–	–	17,895,785	17,895,785
Additional paid-in capital	–	43,347	–	43,347
Dividend to parent	–	–	(17,781,061)	(17,781,061)
Balance at December 31, 2018	<b>\$ 663,500</b>	<b>\$ 1,019,874</b>	<b>\$ 5,296,787</b>	<b>\$ 6,980,161</b>

*See accompanying notes.*

Spectrum Asset Management, Inc.

Statement of Cash Flows  
Year Ended December 31, 2018

<b>Operating activities</b>	
Net income	\$ 17,895,785
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	27,462
Deferred income taxes	164,814
Changes in operating assets and liabilities:	
Management fees and commissions receivable	1,863,286
Income taxes receivable from affiliates	(526,862)
Other assets	(7,630)
Accounts payable	(22,964)
Accrued compensation	(628,332)
Due to affiliates	(30,633)
Income taxes payable to affiliates	(278,554)
Net cash provided by operating activities	18,456,374
<b>Investing activities</b>	
Purchase of fixed assets	(56,040)
Net cash used in investing activities	(56,040)
<b>Financing activities</b>	
Dividend paid to Principal Global Investors, LLC	(17,781,061)
Additional paid-in capital Employee Stock Purchase Program	43,347
Net cash used in financing activities	(17,737,715)
Net increase (decrease) in cash and cash equivalents	662,619
Cash and cash equivalents at beginning of year	5,692,407
Cash and cash equivalents at end of year	\$ 6,355,026
Income Taxes Paid	\$ 6,432,042

*See accompanying notes.*

# Spectrum Asset Management, Inc.

## Notes to Financial Statements

December 31, 2018

### **1. Organization**

#### **Organization and Nature of Business**

Spectrum Asset Management, Inc. (the Company) is a registered investment advisor, broker-dealer, and commodity trading advisor. The Company is a member of the Financial Industry Regulatory Authority (FINRA), providing investment management and security investment brokerage for institutional clients. The Company is also a manager of domestic investment portfolios for corporate and mutual fund clients. The Company primarily specializes in the management of fixed-rate preferred stocks and cash. To minimize principal fluctuations, the Company uses its proprietary hedging strategy to establish a cross-hedge with U.S. Treasury futures. The derivative instruments are entered into by the Company's clients and are not reported in the financial statements of the Company. The Company clears its securities transactions on a fully disclosed basis through National Financial Services LLC (NFS).

The Company is a wholly owned subsidiary of Principal Global Investors Holding Company (US), LLC (Principal Global). Principal Global is a wholly owned subsidiary of Principal Financial Services, Inc. (PFSI). PFSI is a wholly owned subsidiary of Principal Financial Group (PFG).

### **2. Summary of Significant Accounting Policies**

#### **Cash and Cash Equivalents**

The Company considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents. The Company is required to hold cash on deposit with NFS. The amount held on deposit with NFS is \$300,000 as of December 31, 2018. The Company holds its cash in bank accounts with balances in excess of the Federal Deposit Insurance Corporation deposit insurance limits.

#### **Use of Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. It is possible that actual results could differ from the estimates and assumptions utilized.

Spectrum Asset Management, Inc.

Notes to Financial Statements (continued)

**2. Summary of Significant Accounting Policies (continued)**

**Fixed Assets**

Fixed assets are comprised of furniture and equipment and leasehold improvements. Furniture and equipment are recorded at cost and are depreciated using the straight-line method over their estimated useful lives, which range from three to ten years. Additions and major renewals are capitalized. Maintenance, repairs, and minor renewals are expensed as incurred. Leasehold improvements are amortized over the shorter of their estimated useful lives or the term of the lease.

**Revenue Recognition**

Beginning January 1, 2018, the Company adopted *Revenue from Contracts with Customers (ASC Topic 606)*, using the modified retrospective method. The guidance replaces all general and most industry specific revenue recognition guidance previously prescribed by U.S. GAAP. In accordance with *ASC Topic 606*, an entity recognizes revenue to reflect the transfer of a promised good or service to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for that good or service. Revenue is recognized when, or as, the entity satisfies a performance obligation under the contract. The standard also requires disclosures regarding the nature, timing and uncertainty of revenue and cash flows arising from contracts with customers. The adoption of the guidance did not change the timing of revenue recognition or result in financial statement changes related to contract costs for the Company.

The Company's revenues are derived from fees for investment management services provided to institutional and other client, and commissions. The performance obligation for investment management fees consists of daily services, which forms a single performance obligation. These fees are accrued each month over the period in which the services are performed and settled monthly, quarterly or semi-annually. Commission revenue is earned through brokerage services and the performance obligation is satisfied at the time the trade is executed.

**Income Taxes**

The Company is taxed as a division of PFG at corporate rates based on existing tax laws. Current income taxes are charged or credited to operations based upon amounts estimated to be payable or recoverable as a result of taxable operations for the current year. Deferred income taxes are provided for the tax effect of temporary differences in the financial reporting and income tax basis of assets and liabilities and net operating losses using enacted income tax rates and laws. The effect on deferred income tax assets and deferred income tax liabilities of a change in tax rates is recognized in operations in the period in which the change is enacted

## Spectrum Asset Management, Inc.

### Notes to Financial Statements (continued)

#### 2. Summary of Significant Accounting Policies (continued)

##### Future Adoption of New Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (FASB) issued ASU Update No. 2016-02 – Leases (Topic 842), which provides new guidelines that changes the accounting for leasing arrangements. This authoritative guidance requires lessee recognition of lease assets and lease liabilities on the balance sheet. The concept of an operating lease, where the lease assets and liabilities are off balance sheet, is eliminated under the new guidance. For lessors, the guidance modifies lease classification criteria and accounting for certain types of leases. Other key aspects of the guidance relate to the removal of the current real estate-specific guidance and new presentation and disclosure requirements. Lessees and lessors are required to recognize and measure leases using a modified retrospective approach, which includes certain optional practical expedients that may be elected. The Company elected the alternative transition method, which allows entities to initially apply the new standard at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption.

The Company's evaluation process includes, but is not limited to, identifying leases that are within the scope of the guidance, reviewing and documenting our accounting for these contracts, implementing system and process changes and determining disclosure impacts. The guidance requires us to establish a lease asset and liability for our operating leases. The guidance will be applied at the beginning of period of adoption. Assets and liabilities will increase approximately \$1.1 million and \$1.2 million, respectively, due to the adoption of this guidance.

#### 3. Fixed Assets

	<b>December 31</b>
	<b>2018</b>
Fixed assets consisted of the following:	
Furniture and equipment and leasehold improvements	\$ 1,361,812
Less accumulated depreciation and amortization	<u>(1,288,132)</u>
	<u>\$ 73,680</u>

## Spectrum Asset Management, Inc.

### Notes to Financial Statements (continued)

#### 4. Leases

As of December 31, 2018, future minimum rentals under capital and operating leases for office space and certain equipment that have initial or non-cancelable lease terms in excess of one year are as follows:

2019	\$ 181,560
2020	220,253
2021	224,717
2022	227,184
	<u>\$ 853,714</u>

Lease expenses for 2018 totaled \$233,991.

#### 5. Income Taxes

##### Income Tax Expense

The Company's taxable income or loss is generally included in the consolidated income tax return filed by PFG, the Company's ultimate parent.

PFG has adopted the policy of allocating income tax expense and benefits to members of its consolidated group based upon their pro rata contribution of taxable income or loss. The Company paid taxes of \$6,432,042 during 2018.

Income tax expense (benefit) was as follows as of December 31, 2018:

Current income taxes (benefits):	
U.S. federal	\$ 4,607,611
State	534,733
Total current income taxes (benefits)	<u>5,142,344</u>
Deferred income taxes (benefits):	
U.S. federal	150,216
State	14,598
Deferred income taxes (benefits)	<u>164,814</u>
Total income taxes (benefits)	<u>\$ 5,307,158</u>

## Spectrum Asset Management, Inc.

### Notes to Financial Statements (continued)

#### 5. Income Taxes (continued)

##### Effective Income Tax Rate

The Company's provision for income taxes may not have the customary relationship of taxes to income. A reconciliation between the U.S. corporate income tax rate and the effective income tax rate is as follows as of December 31, 2018:

U.S. corporate income tax rate	21.0%
State tax	1.9
Effective income tax rate	<u>22.9%</u>

##### Unrecognized Tax Benefits

The amount of unrecognized tax benefits calculated for the Company as of December 31, 2018 is not material to the Company's financial position. Therefore, the total amount of unrecognized tax benefits, that if recognized, would affect the effective income tax rate is immaterial. The Company recognizes interest expense and penalties related to income taxes in operating expenses. The Company recognized no accumulated pre-tax interest and penalties related to unrecognized tax benefits in 2018.

We do not believe there is a reasonable possibility that the total amount of unrecognized tax benefits will significantly increase or decrease in the next twelve months.

##### Net Deferred Income Taxes

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The deferred tax balances as of December 31, 2018, were remeasured as a result of the U.S. tax reform reducing the U.S. statutory tax rate from 35% to 21% effective January 1, 2018. This was because the new rate is applicable to the reversal of cumulative temporary differences thereafter.

Spectrum Asset Management, Inc.

Notes to Financial Statements (continued)

**5. Income Taxes (continued)**

Significant components of net deferred income taxes for 2018 were as follows:

Deferred income tax assets:	
Deferred compensation	\$ 1,120,884
Real estate	119,369
Total deferred income tax assets	<u>1,240,253</u>
Deferred income tax liabilities:	
Employee benefits	<u>911</u>
Total net deferred income tax assets	<u>\$ 1,239,342</u>

In management's judgment, total deferred income tax assets are more likely than not to be realized.

**Other Tax Information**

Principal filed claims for refund for tax years 2006 through 2008 in 2015 and tax year 2012 in 2016. The IRS commenced audit of Principal's federal income tax return for 2009 during the fourth quarter of 2011, for 2010 during the first quarter of 2012, 2011 during the first quarter of 2013, and 2012 in the third quarter of 2015. The U.S. federal statute of limitations expired for years prior to 2009, except for pending audit issues. The statute was extended until June 30, 2019 for 2009 through 2012, has expired for 2013 and 2014, and remains open for years thereafter. The ultimate settlement of earlier tax years can be adjusted into subsequent tax years regardless of statute status. Principal and the Company do not expect the results of these audits, subsequent related adjustments or developments in other tax areas for all open tax years to significantly change the possible increase in the amount of unrecognized tax benefit, but the outcome of the tax reviews is uncertain and unforeseen results can occur.

## Spectrum Asset Management, Inc.

### Notes to Financial Statements (continued)

#### 6. Related-Party Transactions

The Company has the following related party transactions with Principal Life Insurance Company and Principal Global:

- The Company has entered into an expense reimbursement agreement with Principal Life Insurance Company to reimburse Principal Life Insurance Company for certain fees that Principal Life Insurance Company pays on the Company's behalf or costs the Company has agreed to pay. These costs are settled on a monthly basis. As of December 31, 2018, total amounts billed to the Company for 2018 was \$1,473,964. This expense is included in other operating expenses and compensation and related expense.
- Principal Life Insurance Company also administers the Company's payroll and the Company reimburses Principal Life Insurance Company for all payroll costs within a month. Total payroll expenses paid by Principal Life Insurance Company and reimbursed by the Company in 2018 as of December 31, 2018 was \$23,002,837. This expense is included in compensation and related expense.
- The Company has distribution agreements with Principal Global to pay Principal Global commissions on individually managed portfolios and separately managed accounts in which Principal Global sales staff sourced the client. The commission charge for individual U.S. managed portfolios is 12.5% of revenue for the first year, 10% of revenue for the second year and zero for the third year and beyond. The commission charge for certain individual non-U.S. managed portfolios is 12.5% of revenue for the first year, 10% of revenue for the second year and 5% of revenue for the 3<sup>rd</sup> year and beyond with a cap of \$125,000/year. The commission charge for separately managed accounts is 50% of commissions for the separately managed account channel once AUM levels are greater than \$2.5 billion. Total commissions paid in 2018 to Principal Global for individually managed portfolios and separately managed accounts as of December 31, 2018 were \$540,325. This expense is included in other operating expenses.
- The Company has entered into a revenue share agreement with Principal Global. As part of the revenue share agreement, Principal Global bills and collects payments on certain clients on the Company's behalf. The Company also provides investment and advisory services to funds managed by affiliates. The total amount of revenue that came into Principal Global and has been passed to the Company as of December 31, 2018 was \$33,961,109. This revenue is included in management fees.

Spectrum Asset Management, Inc.

Notes to Financial Statements (continued)

**7. Regulatory Requirements**

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (Rule 15c3-1), which requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined therein, shall not exceed 15 to 1. At December 31, 2018, the Company had defined net capital of \$7,227,748 which was \$7,163,428 in excess of its required minimum net capital of \$64,320. At December 31, 2018, the Company's ratio of aggregate indebtedness to net capital was .13 to 1. Various other regulatory agencies may impose additional capital requirements.

The Company is exempt from maintaining a special reserve bank account under Rule 15c3-3(k)(2)(ii).

**8. Subsequent Events**

The Company has evaluated subsequent events through the date that the financial statements were issued.

On January 2, 2019, the Company revised the corporate structure so that its brokerage operations have become incorporated in a newly formed legal entity and became a wholly owned subsidiary of the Company. The brokerage entity is called SAMI Brokerage LLC.

## Supplemental Information

Spectrum Asset Management, Inc.

Schedule I –Computation of Net Capital

December 31, 2018

1.Total ownership equity from statement of financial condition	<u>\$ 6,980,161</u>
2.Deduct ownership equity not allowable for net capital	<u>                    </u>
3.Total ownership equity qualified for net capital	<u>6,980,161</u>
4.Add:	
A. Liabilities subordinated to claims of general creditors allowable in computation of net capital	<u>                    </u>
B. Other (deductions) or allowable credits	<u>4,963,896</u>
5.Total capital and allowable subordinated liabilities	<u>\$ 11,944,057</u>
6.Deductions and/or charges:	
A. Total nonallowable assets from statement of financial condition (Notes B and C)	<u>\$ 4,716,309</u>
B. Secured demand note deficiency	<u>                    </u>
C. Commodity futures contracts and spot commodities – proprietary capital charges	<u>                    </u>
D. Other deductions and/or charges	<u>                    </u>
7.Other additions and/or allowable credits	<u>                    </u>
8.Net capital before haircuts on securities positions	<u>7,227,748</u>
9.Haircuts on securities (computed, where applicable, pursuant to 15c3-1(f)):	
A. Contractual securities commitments	<u>                    </u>
B. Subordinated securities borrowings	<u>                    </u>
C. Trading and investment securities:	
1.Exempted securities	<u>                    </u>
2.Debt securities	<u>                    </u>
3.Options	<u>                    </u>
4.Other securities	<u>                    </u>
D. Undue concentration	<u>                    </u>
E. Other	<u>                    </u>
10. Net capital	<u>\$ 7,227,748</u>

Spectrum Asset Management, Inc.

Schedule I –Computation of Net Capital (continued)

**Computation Basic of Net Capital Requirement**

**Part A**

11. Minimum net capital required (6 2/3% of line 19)	<u>\$ 64,320</u>
12. Minimum dollar net capital requirement of reporting broker or dealer and minimum net capital requirement of subsidiaries computed in accordance with Note (A)	<u>5,000</u>
13. Net capital requirement (greater of line 11 or 12)	<u>64,320</u>
14. Excess net capital (line 10 less 13)	<u>7,163,418</u>
15. Excess net capital at 1000% (line 10 less 10% of line 19)	<u>7,131,269</u>

**Computation of Aggregate Indebtedness**

16. Total A.I. liabilities from statement of financial condition	<u>964,793</u>
17. Add:	
A. Drafts for immediate credit	
B. Market value of securities borrowed for which no equivalent value is paid or credited	<u>                    </u>
C. Other unrecorded amounts	<u>                    </u>
19. Total aggregate indebtedness	<u>964,793</u>
20. Percentage of aggregate indebtedness to net capital (line 19 ÷ by line 10)	<u>13.35%</u>
21. Percentage of debt to debt equity total computed in accordance with Rule 15c3-1(d)	<u>0.00</u>

**Notes**

(A) The minimum net capital requirement should be computed by adding the minimum dollar net capital requirement of the reporting broker-dealer and, for each subsidiary to be consolidated, the greater of:

1. Minimum dollar net capital requirement, or
2. 6 2/3% of aggregate indebtedness or 4% of aggregate debits if alternative method is used.

(B) Do not deduct the value of securities borrowed under subordination agreements or secured demand notes covered by subordination agreements not in satisfactory form and the market

Spectrum Asset Management, Inc.

Schedule I – Computation of Net Capital (continued)

values of memberships in exchanges contributed for use of company (contra to Item 1740) and partners' securities that were included in non-allowable assets.

(C) For reports filed pursuant to paragraph (d) of Rule 17a-5, respondent should provide a list of material non-allowable assets.

There are no differences between the computation of net capital under Rule 15c3-1, which is included in this audited report, and the computation of net capital in the company's corresponding, unaudited Focus Report (Form X-17A-5, Part IIA) filing submitted to FINRA as of December 31, 2018.

Spectrum Asset Management, Inc.

Schedule II –Computation for Determination of the Reserve Requirements  
Pursuant to SEC Rule 15c3-3

December 31, 2018

**Computation for Determination of Reserve Requirements  
Pursuant to Rule 15c3-3:**

**Exemptive Provision**

22. If an exemption from Rule 15c3-3 is claimed, identify below the section upon which such exemption is based (check one only):

A. (k)(1) – Limited business (mutual funds and/or variable annuities only)

B. (k)(2)(i) – “Special Account for the Exclusive Benefit of Customers” maintained

C. (k)(2)(ii) – All customer transactions cleared through another broker-dealer on a fully-disclosed basis. Name of clearing firm: National Financial Services LLC.

D. (k)(3) – Exempted by order of the Commission

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_ X \_\_\_\_\_

\_\_\_\_\_

Spectrum Asset Management, Inc.

Schedule III – Information Relating to the Possession or Control Requirements  
Under SEC Rule 15c3-3

December 31, 2018

The Company is exempt from SEC Rule 15c3-3 as it relates to the possession and control requirements under paragraph (k)(2)(ii) of that Rule.

**Report of Independent Registered Public Accounting Firm  
on Applying Agreed-Upon Procedures**

To the Board of Directors and Management of Spectrum Asset Management, Inc.:

We have performed the procedures enumerated below, which were agreed to by the Board of Directors, management of Spectrum Asset Management, Inc. (the Company), and the Securities Investor Protection Corporation (SIPC), as set forth in the Series 600 Rules of SIPC, solely to assist the specified parties in evaluating the Company's schedule of assessments and payments is in accordance with the applicable instructions of the General Assessment Reconciliation (Form SIPC-7) for the fiscal year ended December 31, 2018. The Company's management is responsible for the Company's compliance with those requirements. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures enumerated below either for the purpose for which this report has been requested or for any other purpose.

The procedures we performed and our findings are as follows:

1. Compared the assessment payments made in accordance with the General Assessment Payment Form (Form SIPC-6) and applied to the General Assessment calculation on Form SIPC-7 with respective cash disbursement record entries including a copy of the check. No findings were found as a result of applying the procedure.
2. Compared the amounts reported in the audited financial statements required by SEC Rule 17a-5 with the amounts reported in Form SIPC-7 for the fiscal year ended December 31, 2018. No findings were found as a result of applying the procedure.
3. Compared any adjustments reported in Form SIPC-7 with supporting schedules and working papers supporting the adjustments including monthly revenue detail from the revenue sub-ledger. No findings were found as a result of applying the procedure. No findings were found as a result of applying the procedure.
4. Recalculated the arithmetical accuracy of the calculations reflected in Form SIPC-7 and in the schedules and working papers supporting the adjustments. No findings were found as a result of applying the procedure.

This agreed-upon procedures engagement was conducted in accordance with the interim attestation standards of the Public Company Accounting Oversight Board (United States) and the attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or a review, the objective of which would be the expression of an opinion or conclusion, respectively, on whether Spectrum Asset Management, Inc's schedule of assessments and payments is in accordance with the applicable instructions of the General Assessment Reconciliation (Form SIPC-7) for the fiscal year ended December 31, 2018. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the specified parties listed above and is not intended to be and should not be used by anyone other than these specified parties.

*Ernst + Young LLP*

Des Moines, Iowa  
February 26, 2019

## Report of Independent Registered Public Accounting Firm

The Board of Directors and Management of Spectrum Asset Management, Inc.

We have reviewed management's statements, included in the accompanying Spectrum Asset Management Inc.'s Exemption Report, in which (1) Spectrum Asset Management Inc. (the Company) identified the following provisions of 17 C.F.R. § 15c3-3(k) under which the Company claimed an exemption from 17 C.F.R. § 240.15c3-3: (k)(2)(ii) (the "exemption provision") and (2) the Company stated that it met the identified exemption provisions in 17 C.F.R § 240.15c3-3 (k) throughout the most recent fiscal year ended December 31, 2018 without exception. Management is responsible for compliance with the exemption provision and its statements.

Our review was conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States) and, accordingly, included inquiries and other required procedures to obtain evidence about the Company's compliance with the exemption provisions. A review is substantially less in scope than an examination, the objective of which is the expression of an opinion on management's statements. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to management's statements referred to above for them to be fairly stated, in all material respects, based on the provision set forth in paragraph (k)(2)(ii) of Rule 15c3-3 under the Securities Exchange Act of 1934.

This report is intended solely for the information and use of the Board of Directors, management, the SEC, FINRA, and other regulatory agencies that rely on Rule 17a-5 under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers, and other recipients specified by Rule 17a-5(d)(6) and is not intended to be and should not be used by anyone other than these specified parties.

*Ernst + Young LLP*

Des Moines, Iowa  
February 26, 2019

S P E C T R U M

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Spectrum Asset Management Inc.'s Exemption Report

Spectrum Asset Management, Inc. (the "Company") is a registered broker-dealer subject to Rule 17a-5 promulgated by the Securities and Exchange Commission (17 C.F.R. §240.17a-5, "Reports to be made by certain brokers and dealers"). This Exemption Report was prepared as required by 17 C.F.R. § 240.17a-5(d)(1) and (4). To the best of its knowledge and belief, the Company states the following:

- (1) The Company claimed an exemption from 17 C.F.R. § 240.15c3-3 under the following provisions of 17 C.F.R. § 240.15c3-3 (k)(2)(ii) – All customer transactions are cleared through another broker-dealer on a fully disclosed basis.
- (2) The Company met the identified exemption provisions in 17 C.F.R. § 240.15c3-3(k) throughout the period from January 1, 2018 through December 31, 2018 without exception.

Spectrum Asset Management, Inc.

I, Jean Orlando, affirm that, to my best knowledge and belief, this Exemption Report is true and correct.

By: 

Title: Chief Financial Officer

Date: 2/26/19