

**Item 1. Cover Page**

**Form ADV Part 2A**

**SII INVESTMENTS, INC.®**

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www.siionline.com**

**March 28, 2014**

**This brochure provides information about the qualifications and business practices of SII Investments, Inc.®. If you have any questions about the contents of this brochure, please contact us at the above phone number. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission ("SEC") or by any state securities authority.**

**Additional information about SII Investments, Inc.® ("SII") is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

**SII Investments, Inc.® is an SEC-registered investment advisor; however, registration itself does not imply a certain level of skill or training.**

## **Item 2. Material Changes**

We may update this document at any time but are required to promptly send clients a copy of any material changes to our disclosures upon doing so. In addition, we will also deliver an annual summary of all material changes that occur to this brochure along with an offer to provide you with a current version. Please be advised that no material updates have been made to this document since the last annual update of April 1, 2013.

You may request copies of this document by contacting us at (800) 426-5975, e-mailing us at [advisory@siionline.com](mailto:advisory@siionline.com), or downloading it at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

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## Item 4. Advisory Business

### Firm Overview

SII Investments, Inc.<sup>®</sup> is an investment advisor registered with the SEC that provides a range of investment advisory services to clients through its licensed Investment Advisor Representatives (“Representatives”). SII and its Representative may be referred to as “us,” “we” or “our” in this document, and clients may be referred to as “you” and “your.” Although SII also offers brokerage and certain other investment related services, this document is limited to describing the investment advisory services we provide to clients. SII has been in business since 1969 and is a direct subsidiary of National Planning Holdings, Inc., which is a Delaware based holding company that itself is an indirect subsidiary of the Prudential plc, a publicly traded international financial services company incorporated in the United Kingdom that was established in 1848. (Note: Prudential plc is not affiliated in any manner with Prudential Financial, Inc., a company whose principal place of business is in the United States of America.)

### Types of Advisory Services

SII’s investment advisory services are offered to clients in four general categories, each referred to as a “Program”—WealthONE<sup>®</sup>, Maxim, Third Party Asset Managers (“TPAMs”), and Consulting Services.

### PROGRAM DESCRIPTIONS

#### **WealthONE<sup>®</sup> Program**

The WealthONE<sup>®</sup> Program consists of three different options for which SII acts as the investment advisor—Advisor Solutions, Guaranteed Income Solutions and Strategist Solutions<sup>®</sup>. As your investment advisor, SII assumes a “fiduciary” role and obligation to act in your best interest when providing investment advice regarding management of your investments. In so doing, our Representative provides personalized investment advice and recommends or selects investments based on the client’s “Investment Profile Information” (which is explained under the *Individual Investment Approach* section below on page 7).

**Advisor Solutions.** For Advisor Solutions Program accounts, our Representative may make investment recommendations based on use of asset allocation software and models. Asset allocation models are generally designed to achieve diversification of investment types to reduce the risk of loss due to variation of investment returns of any particular asset class (for example, stocks, mutual funds, and bonds are each separate asset classes).

Advisor Solutions services are provided on either a non-discretionary or discretionary basis. *Non-discretionary services* require clients to approve each securities transaction recommended by the Representative before it can occur, and *discretionary services* authorize the Representative to buy, sell or exchange securities in client accounts without obtaining their consent prior to each transaction. Clients have the option of selecting whether or not to grant SII discretionary authority over their portfolios.

**Guaranteed Income Solutions.** Under this Program, SII makes insurance products available which are offered by a select group of reputable third party insurance carriers not affiliated with SII. These products are offered on a “no-load” basis, meaning that no commission is assessed on their sale. Instead, an ongoing management fee is charged by

our Representative who will use asset allocation software and modeling tools to recommend and assist you with managing the insurance product in which you are invested. This Program is offered on either a non-discretionary or discretionary basis, allowing clients the option of selecting whether or not to grant SII discretionary authority over the insurance products. You should refer to and carefully read the terms and conditions of the insurance contract and prospectus provided by the insurance carriers for more specifics regarding your participation, investment rights and obligations for the various insurance products offered under the Program.

**Strategist Solutions®.** The Strategist Solutions® Program offers clients an opportunity to maintain a customized investment portfolio composed of either mutual funds or exchange-traded funds. A mutual fund is a pooled investment company that brings together money from many people which it invests in stocks, bonds or other assets. An exchange-traded fund (also called an “ETF”) is a fund that tracks a select group of securities (known as an “index”) and is traded actively through a stock exchange. The portfolio is managed by a select group of asset managers who are not affiliated with SII, based on model investment allocations they determine. The Program is a wrap-fee program (which bundles investment advice, custody and execution services for a single fee) offered by SII along with its co-advisor to the Program, Curian Capital, LLC, an SEC registered investment advisor and affiliate of SII. For additional details on the Strategist Solutions® Program, please carefully review Form ADV Part 2A, Appendix 1, entitled the “*WealthONE® Wrap Program Brochure*,” which is available upon request from SII or your Representative.

#### **Maxim Program**

Under the Maxim Program, our Representatives provide investment advisory services to clients based on the client’s Investment Profile Information in the same manner as described above for the Advisor Solutions Program. However, the Representative may elect to use one or more alternative broker-dealers other than Pershing LLC (“Pershing”) to execute securities transactions, custody client assets, and service client accounts, as explained in more detail under Item 12 below. As a result, performance reporting and the level of other account services may be unavailable or more limited for clients with Maxim Program accounts than electing to establish an account at Pershing with which SII has a more formal arrangement as an introducing broker-dealer.

#### **Third Party Asset Manager Program**

SII’s TPAM Program provides clients with the opportunity to have their investment portfolios professionally managed by independent money managers unaffiliated with SII through arrangements we have negotiated with certain TPAMs that we have selected to participate in the Program. TPAMs are selected by SII based on these firms satisfying our due diligence review process and requirements. In limited situations, we may waive certain of these requirements and may also limit the services provided by some TPAMs to a “service only” relationship, under which no new client assets are placed under the TPAM’s management.

The investment strategies and types of investments utilized by each of the TPAMs participating in the Program vary, and we will recommend a specific TPAM based on the Investment Profile Information provided by clients. SII contacts clients at least annually to determine whether there have been any changes to their Investment Profile Information, and we remind clients to notify us of any such changes on a quarterly basis. TPAM Program services include investment portfolio analysis, asset allocation modeling and analysis, trade

execution, performance monitoring, portfolio reporting and other related investment services.

Under our TPAM Program, clients enter an agreement with SII appointing us to serve as their investment advisor on a non-discretionary basis. SII assists clients with the selection and management of TPAM relationships by recommending, monitoring and providing reporting on the performance of the selected TPAMs to clients. Clients also enter an agreement with the TPAM that typically provides the TPAM with trading discretion to determine which products to purchase, sell and/or exchange on behalf of clients without having to obtain client approval for each transaction initiated. Upon request, Representatives are available for periodic consultations with clients to evaluate the performance of their TPAM managed portfolios.

Since each TPAM is uniquely structured with different investment products, please ensure that you carefully review (i) the TPAM's Form ADV Part 2A and 2B or alternate disclosure brochure for specific Program descriptions, (ii) the TPAM's client agreement for specific contractual terms, and (iii) any additional disclosure or offering documentation provided by the TPAM related to its services or investment products. Among other important information, the TPAM's Form ADV Part 2A and 2B or alternate disclosure brochure will have specific information describing: methods of analysis and investment strategies, conflicts of interest, disciplinary actions, fee calculation and deduction, fee schedules, refund policies, minimum account sizes, termination procedures, and proxy voting policies (which may permit you to nominate the TPAM to exercise voting rights regarding your investments). You should also be aware that certain TPAMs may utilize back-tested hypothetical performance modeling in marketing materials which attempt to estimate the potential performance of their investment products based on past performance of selected investments. Please note that these types of performance projections are created retroactively with the benefit of hindsight, and do not reflect actual investment results or guarantee future results.

SII and its Representatives may occasionally act as a referral source to TPAMs (in which case we are referred to as a "solicitor") for a fee; however, this is outside the scope of the investment advisory services described in this document. When we act as a TPAM solicitor, neither SII nor the Representative are the client's investment advisor or provide investment advice.

You may obtain a copy of each TPAM's Form ADV Part 2A providing the same information contained in this brochure by visiting [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov) or upon request from the TPAM. You may also request Form ADV Part 2B from the TPAM, which contains detailed information about the individual TPAM representative(s) who will be responsible for managing your assets.

### **Consulting Services Program**

For clients seeking financial advice or investment education involving analysis of a particular investment or financial situation, SII provides consultation services designed to meet the client's specific financial objectives and needs. The consulting services generally take the form of preparing a financial plan, but may also involve more general consulting. In addition, services may include focused planning arrangements in areas such as retirement planning, estate planning, college planning, cash flow analysis, or analysis with regard to investment of lump sum distributions from employer pension and profit sharing plans.

In preparing a financial plan, the Representative gathers information from the client relevant to the particular service by conducting personal interviews and obtaining documents and other information supplied by the client. These services may include an analysis of the client's financial information, such as their current assets and investments, liabilities, short and long-term capital and liquidity needs, risk tolerance, and short and long-term financial goals and objectives.

If a client wishes to implement the recommendations contained in a financial plan, SII suggests that the client work closely with his or her attorney, accountant, insurance agent and/or securities broker. Although Representatives generally make recommendations with respect to products or services offered by SII and its affiliates, the decision to implement any such recommendation rests exclusively with the client, and the client has no obligation to implement any such recommendation through SII or its affiliates.

As noted above, all investment programs involve risk and there is no guarantee that using our Consulting Services will produce favorable results. Please carefully review the information and statements contained in the particular financial plan presented by our Representative, and be sure to ask them for assistance in clarifying any questions you may have regarding the information you receive.

#### **Individual Investment Approach: Investment Profile Information**

The investment advisory services we offer to each client will vary in type and complexity, depending on a client's individual investment goals and circumstances. Generally, our services begin with the Representative gathering information from you regarding your financial circumstances, investment objectives and risk tolerance, which together we refer to as the "Investment Profile Information." This information assists the Representative in determining which services and investments are most appropriate to recommend or select on your behalf. It is important that you provide accurate and complete responses to the questions asked by the Representative in gathering your Investment Profile Information, and that you promptly inform the Representative of any subsequent changes to your Investment Profile Information.

In certain situations, clients may request a restriction on the types of investments purchased on their behalf, based on either general social categories or specific securities. However, doing so may impact the performance of a client's account and it may differ from accounts without the same restrictions.

#### **Assets Under Management**

SII has \$2,646,156,037 in discretionary assets under management and \$628,223,778 in non-discretionary assets under management, calculated as of December 31, 2013.

### **Item 5. Fees and Compensation**

The fees we charge and compensation received for investment advisory services will vary depending on the particular Program, products and services offered, as outlined below. All fee arrangements are negotiable and SII may agree to waive its management fee or any other applicable fees or costs either on an ongoing or a one-time basis.

Fees are automatically billed by us in advance on a quarterly basis, according to one of three fee schedules outlined below, based on the fair market value of a client's portfolio as reported to us by the independent custodian at which your assets are held. The total amount of Management Fees you pay under the Program may vary depending on which of the following Fee Schedules is selected.

***Standard Linear Fee Schedule***

<b>Portfolio Value</b>	<b>Maximum Annual Fee</b>
\$0 - \$49,999.99	2.75%
\$50,000 - \$99,999.99	2.75%
\$100,000 - \$249,999.99	2.50%
\$250,000 - \$499,999.99	2.25%
\$500,000 - \$749,999.99	1.90%
\$750,000 - \$999,999.99	1.75%
\$1,000,000 - \$1,249,999.99	1.75%
\$1,250,000 - \$1,749,999.99	1.50%
\$1,750,000 - \$1,999,999.99	1.40%
\$2,000,000 - \$2,999,999.99	1.40%
\$3,000,000 - \$3,999,999.99	1.40%
\$4,000,000 - \$4,999,999.99	1.40%
\$5,000,000 - \$9,999,999.99	1.40%
\$10,000,000 +	1.40%

***Standard Tiered Fee Schedule***

<b>Portfolio Value</b>	<b>Maximum Annual Fee</b>
\$0 - \$49,999.99	2.75%
\$50,000 - \$99,999.99	2.75%
\$100,000 - \$249,999.99	2.50%
\$250,000 - \$499,999.99	2.25%
\$500,000 - \$749,999.99	1.90%
\$750,000 - \$999,999.99	1.75%
\$1,000,000 - \$1,249,999.99	1.75%
\$1,250,000 - \$1,749,999.99	1.50%
\$1,750,000 - \$1,999,999.99	1.40%
\$2,000,000 - \$2,999,999.99	1.40%
\$3,000,000 - \$3,999,999.99	1.40%
\$4,000,000 - \$4,999,999.99	1.40%
\$5,000,000 - \$9,999,999.99	1.40%
\$10,000,000 +	1.40%

***Flat Fee Schedule***

An annual percentage fee is negotiated and charged to the client. The annual percentage rate will not exceed the corresponding portfolio value indicated on the above Standard Linear Fee Schedule.



### **Additional Fee Calculation Information**

The initial fee for the first calendar quarter in which a client participates in a Program shall be calculated on a pro-rata basis beginning the day after initial assets are deposited in the Program, and is debited the following month. Fees are subsequently calculated at the beginning of each calendar quarter, based on the fair market value of the portfolio on the last business day of the prior calendar quarter. If an account is opened in the last month of a calendar quarter, fees will be calculated and debited for the remaining period in that calendar quarter, along with fees for the next calendar quarter, on the day after initial assets are deposited. If our relationship with a client terminates and all assets are withdrawn from the Program prior to the end of a quarter, we will issue a refund for the pro-rata portion of the fee owed to the client.

**Early Termination Fee.** If a client terminates their relationship with SII within the first twelve months, an administrative fee of \$100 may apply at our discretion to offset associated termination costs. Any prepaid fees will be refunded to the client on a pro-rata basis in the event of termination.

**Fee Billing Notices.** SII will send billing notices to each client showing the amount of the management fees charged for the period, the value of the account assets on which Program fees are based, and the manner in which the Program fees were calculated. It is the client's responsibility to carefully review account statements and fee deductions since the custodian does not determine the accuracy of fees deducted by us.

The services offered by the Programs may cost clients more or less than purchasing the same services separately and/or through other channels. Factors that impact the cost of the Programs in relation to the cost of the same services purchased separately include the type and size of the client's portfolio, the historical and/or expected size or number of trades for the client's portfolio, and the number and range of supplemental advisory and related services provided. Clients may pay fees other than those listed above that are based on fee schedules in effect prior to their becoming clients of SII or on fee schedules no longer in effect for new SII clients, depending on their client agreement.

Additional Program specific fees may be assessed as follows:

#### **a. Advisor Solutions**

**Mid-Cycle Fee Adjustments.** If a client deposits assets (cash and securities) with a market value of ten-thousand dollars (\$10,000) or more in an account on any given day after the inception of a calendar quarter, the amount of the deposit will immediately be subject to a pro-rated fee based on the applicable Fee Schedule. Clients shall be entitled to a fee rebate calculated in the same manner if account assets are withdrawn in excess of this amount on any given day.

**Householding.** SII may allow direct family members or clients sharing the same household address with multiple accounts to aggregate assets for purposes of calculating fees according to the above fee schedules.

**Clearing and Service Provider Charges.** SII reserves the right to pass on charges imposed by the clearing broker-dealer (the firm through which we arrange for securities transactions to occur) or other service providers to the client. These fees include, but are not limited to, transaction charges and service fees, IRA and

qualified retirement plan fees, mutual fund 12b-1 fees (an expense charged against fund assets by fund companies that is paid to broker-dealers such as SII to assist with marketing and servicing fund sales) and subtransfer agent fees (an expense charged against fund assets by fund companies that is paid to record keeping firms who provide fund accounting and administration services), mutual fund and money market management fees and administrative expenses, mutual fund transaction fees, deferred sales charges (certain mutual funds charge a fee when you sell shares of the fund) on previously purchased mutual funds or variable annuities products transferred in the portfolio, and other charges that are assessed by third parties. As described in SII's Premier Product Sponsor and Revenue Sharing Disclosure (a copy of which is available on SII's website and through our Representatives), SII and its Representatives may receive revenue sharing payments from certain firms, including Pershing in its role as a selected clearing broker-dealer and custodian for client assets, from the revenue earned by these firms from client fees. See Item 13 below for additional details regarding certain revenue sharing arrangements that may benefit SII and its Representatives.

**Internal Fees by Product Sponsors.** Certain investments may have internal fees and costs which are not assessed by SII and will not appear on your account statement, such as internal management fees for mutual funds charged by the fund manager, which can impact the returns on your investments as an operational expense assessed by the investment sponsor for managing the investment. The prospectus or offering documents for mutual funds, annuities, REITs or other investments will detail the fees and charges assessed by the managers of those products. Clients should be aware that when assets are invested in shares of mutual fund products, annuities, UITs or REITs, clients will pay both the direct management fees to SII for its services in connection with these investments and management and other fees paid to the mutual fund or other product. In the case of mutual funds, "no load" funds may be available which do not assess a commission or sales charge (unlike "load" funds). A client may be able to invest directly in the mutual fund's shares and other investments without incurring the fees charged by SII, and may also purchase investment products that we recommend through other brokers or agents not affiliated with us. In addition, there may be tax effects relating to fund share redemptions or the cancellation of policies made by or on behalf of clients, as well as deferred sales charges or redemption fees where investment positions are sold prior to the expiration of a specified holding period.

**b. Guaranteed Income Solutions Fees**

**Carrier, Insurance Product and Miscellaneous Fees.** The Management Fees payable to SII for participation in the Program are separate from additional fees which are payable to the carrier or pursuant to the terms governing the insurance products. SII reserves the right to pass on to you all fees and other charges imposed by the carrier, the insurance products and/or any related transactions in connection with your account. Please consult the prospectus, insurance contract, and any related fee schedules provided by the carrier for the respective insurance products for more information regarding their fees.

**c. Strategist Solutions® Fees.** For detailed information regarding applicable fees for this WealthONE® Program, please consult the Form ADV, Part 2A Appendix 1,

*"WealthONE® Wrap Program Brochure,"* which is available upon request from SII or your Representative.

- d. Maxim Program Account Fees.** These may be payable quarterly either in advance or at the end of each quarter, depending on the arrangement agreed upon between the Representative and client. Fees are calculated based upon the fair market value of the assets in the client's portfolio at the end of the immediately preceding quarter. The custodian with which client assets are custodied will determine the fair market value of client assets for fee calculation purposes, and invoices will be prepared and delivered directly by the Representative as opposed to SII performing this function.
- e. TPAM Program Fees.** These are assessed directly by the TPAM and generally billed on a quarterly basis, starting at the inception of the account. Fees are detailed in the respective TPAM's client agreement, fee schedule and/or Form ADV, Part 2A disclosure brochure and are not determined by SII. TPAM fees may be calculated based on either (i) the fair market value of the assets being managed or (ii) on a performance-based fee criteria, depending on the TPAM Program. We will not charge any additional fees; however, we do receive a portion of the fees charged by TPAMs pursuant to our arrangement with them.
- f. Consulting Services Fees.** The fees for consulting services are negotiated between the Representative and the client. Fees are assessed on an hourly basis or as a flat fee for the consulting project that may be either a set dollar amount or a percentage of the fair market value of assets that are subject to our Consulting Services Agreement. The client may terminate the advisory relationship without penalty within five (5) days of entering into the financial planning agreement. However, SII reserves the right to bill the client for actual time and expenses incurred prior to termination.
- g. Compensation for the Sale of Securities.** SII and Representatives may receive direct and indirect forms of compensation related to the sale of securities or other investment products to clients. The receipt of this type of compensation presents a conflict of interest and gives us an incentive to recommend investment products based on the compensation received, rather than on a client's needs. Please see Item 14 below for additional detail regarding our receipt of this type of compensation, the conflicts it creates, and how we address these conflicts.

## **Item 6. Performance-Based Fees and Side-by-Side Management**

Under limited circumstances, Representatives may be compensated based on a share of the capital gains or capital appreciation of the asset in a client account, also known as performance-based fees. This may create a conflict to the extent that we may also charge asset-based, hourly, or flat fees, since it creates an incentive to favor accounts for which we receive a performance-based fee. We limit this conflict by allowing certain Representatives to charge performance-based fees on an exceptions basis only, and we have policies and procedures designed to monitor the appropriateness of these fees and account activity in comparison with other accounts.

## Item 7. Types of Clients

SII provides its advisory services to a variety of different client types, including individuals, corporate entities, trusts, and pension plans and their participants. Certain account balance minimums must be met for a client to participate in SII's Programs, although we reserve the right to amend or waive these requirements at any time.

**Advisor Solutions and Maxim Program** accounts are generally available only for clients with an initial portfolio value of at least \$25,000. However, SII may waive this requirement at its option, depending upon the circumstances of a particular client. SII reserves the right to terminate the client agreement at any time portfolio assets are less than \$25,000.

**Guaranteed Income Solutions Program** accounts require an initial investment of at least \$25,000 to participate in the Program, although this amount may vary depending on the respective carriers' policies. These requirements may be waived under limited circumstances.

**Strategist Solutions® Program** account minimums vary depending upon the particular asset manager selected and range from \$25,000 to \$100,000, although SII and the asset managers may agree to waive this option, depending upon the circumstances of a particular client. SII reserves the right to terminate the client agreement at any time portfolio assets are less than \$25,000.

**TPAM Program** accounts minimum opening portfolio balance requirements vary according to each TPAM. Generally, account minimums range from \$50,000 to \$250,000. Other terms may apply to account opening and maintenance, as outlined in the TPAM's client agreement.

**Consulting Services Program** arrangements do not have a specified portfolio minimum and are subject to the discretion of the Representative and the mutually agreed upon terms of our Consulting Services Agreement.

## Item 8. Methods of Analysis, Investment Strategies and Risk of Loss

Our Representatives may rely on a number of tools to assist in recommending or selecting an investment strategy to clients, including asset allocation and portfolio modeling software that assists with their analysis of investment options when recommending or purchasing investments for your portfolio. Although our advisory services are generally designed for long-term investing in which investment positions are maintained for a longer period of time (also referred to as "strategic" investing), short-term investment strategies which aim to take advantage of frequent market movements (also referred to as "tactical" investing) may also be made available to accommodate certain circumstances. Investment returns, particularly over shorter time periods, are highly dependent on the value of securities within an investment portfolio which are impacted by trends in the various investment markets. As a result, our investment advisory services are generally more suited for investors seeking long-term investment objectives or strategies, rather than for short-term trading purposes. Under the TPAM Program, each TPAM will have its own methods of analysis, investment strategies and unique investment risks that should also be reviewed and considered.

SII may provide investment advice concerning various types of investments, including equity securities (exchange-listed securities, securities traded over-the-counter, and foreign issuer securities trading as American Depositary Receipts), warrants, commercial paper, corporate debt securities (other than commercial paper), certificates of deposit, municipal securities, investment company securities, variable annuities, variable life insurance, U.S. Government securities, option contracts, fixed insurance, unit investment trusts, exchange-traded funds, interests in partnerships involving real estate, oil and gas, certain types of structured investment products, and other investments, depending upon a client's Investment Profile Information. Our advisory services are generally designed for long-term investment strategies, although short-term investment strategies may be made available by Representative to accommodate certain circumstances.

Investing in securities and other investment products involves inherent risks, including the possible loss of the total principal amount invested. Although we seek to achieve the investment objectives and financial goals, past investment performance does not guarantee future results and we are unable to make any guarantees to clients with respect to avoiding monetary losses. These risks apply to both strategic long term and shorter term tactical approaches to investing. Clients should carefully read the terms of all agreements, product offering documents and related disclosures provided either by SII, TPAMs or product sponsors to better understand the risks associated with each Program and/or the particular investment product(s) under consideration.

## **Item 9. Disciplinary Information**

SII is required to disclose the following information for your consideration:

**October 27, 2005 NASD Censure and Fine of \$20,000**—SII was deemed to have insufficient supervisory procedures in connection with preventing Representatives from engaging in private securities transactions.

**September 23, 2005 NASD Censure and Fine of \$658,500**—Between January 2001 and December 2003, SII received fees for providing certain mutual funds with enhanced marketing opportunities to our Representatives, although we did not actually execute any trades for these mutual funds.

**July 26, 2004 NASD Censure and Fine of \$25,000**—SII consented without admitting or denying the allegations that our supervisory policies and procedures and documentation of variable product sales were insufficient.

**July 14, 2004 Securities Commissioner of the State of Kansas Stipulation and Consent Censure Payment of \$50,000 Payment (not deemed a fine) to State's Investor Education Fund**—SII agreed to an allegation that we failed to reasonably supervise an individual Representative.

**May 26, 2004 NASD Censure and Fine of \$100,000**—SII consented to a finding without admitting or denying allegations that our supervisory system and written procedures were insufficient to ensure that mutual fund orders received after the close of the market were processed at the next day's net asset value.

## **Item 10. Other Financial Industry Activities and Affiliations**

SII is an indirect, wholly owned subsidiary of Prudential plc, an international financial services group with operations in the United Kingdom, Europe, Asia, and the United States. We are affiliated by common ownership with a variety of financial services companies, including the following:

### **Broker-Dealers**

Investment Centers of America, Inc. ("ICA"), IFC Holdings, Inc. d/b/a INVEST Financial Corporation ("IFC"), National Planning Corporation® ("NPC®") and Curian Clearing, LLC are each registered as a broker-dealer and/or an investment advisor with the SEC and various state securities agencies, and each is a member firm of the Financial Industry Regulatory Authority ("FINRA").

Jackson National Life Distributors LLC ("JNLD") is a broker-dealer registered with the SEC and member firm of FINRA. JNLD acts as principal underwriter of variable insurance products issued by Jackson National Life Insurance Company® ("JNL®") and Jackson National Life Insurance Company of New York® ("JNLNY"). See also "Insurance Companies/Investment Companies" below.

Certain of our executive officers and directors also serve as officers and/or directors of these affiliated entities.

### **Insurance Companies/Investment Companies**

JNL® and JNLNY issue variable annuity and life insurance products that are registered under the Investment Company Act of 1940, as amended. The separate accounts of JNL® and JNLNY that issue variable products are similarly registered as investment companies.

Brooke Life Insurance Company® is an insurance company offering traditional life insurance and annuity products.

### **Investment Advisors**

ICA, IFC, NPC®, and Curian Capital, LLC are each affiliated with SII and investment advisors registered with the SEC.

Jackson National Asset Management, LLC® ("JNAM") is an investment advisor registered with the SEC that serves as investment advisor to: the JNL Series Trust, the JNL Investors Series Trust, the JNL Variable Fund, LLC, the JNL Variable Fund III, LLC, the JNL Variable Fund IV, LLC, and the JNL Variable Fund V, LLC and (with respect to JNLNY) the JNLNY Variable Fund I, LLC, and the JNLNY Variable Fund II, LLC.

PPM America, Inc. ("PPM") is an investment advisor registered with the SEC that serves as the investment manager for the general accounts of JNL® and JNLNY and as a sub-advisor to certain series of the JNL Series Trust and JNL Investors Series Trust. M&G Investment Management Ltd. is also a registered investment advisor that offers advisory and investment management services to investors, institutions, trusts, and investment companies.

### **Referrals to Other Investment Advisors; Conflicts of Interest**

As explained in greater detail below under Item 14, we may receive compensation for recommending or selecting both affiliated and unaffiliated investment advisors to provide investment products or services to clients. SII monitors the sales practices and all forms of direct and indirect compensation received by our Representatives to ensure they are acting in compliance with SII's policies and procedures which are designed to prevent abuses, and to ensure that compensation is within industry standards and compliant with securities laws, rules and regulations.

## **Item 11. Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

SII maintains a Code of Ethics in compliance with SEC requirements that is available upon request from SII or your Representative. The Code of Ethics applies to all SII Representatives and covered personnel and is designed to ensure we fulfill our fiduciary duty to clients by always acting in their best interest, avoiding conflicts of interest, and maintaining a strong culture of compliance by following all securities laws, rules and regulations. Among the specific areas addressed by our Code of Ethics as it relates to our Representatives and covered personnel are:

- Pre-approval and reporting of personal securities transactions by our personnel;
- Restrictions on initial public offering and private placement purchases to prevent unfair investment advantage;
- Insider trading prohibitions to prevent use of non-public information for unfair investment advantage;
- Reporting of gifts and business entertainment; and
- Penalties assessed for Code of Ethics violations to ensure its enforcement.

Although SII does not generally engage in principal transactions (where we enter a purchase or sale of securities with clients on behalf of our own account) or cross-agency transactions (where we broker the purchase or sale of securities between advisory clients), we may recommend or select certain insurance products which are sponsored by our affiliate, Jackson National Life Insurance. We may also engage transactions for our accounts or the accounts of others involving the same investments we recommend or select for our clients. Please refer to Item 14 below for more detailed information on these and various other potential conflicts of interest and how we address them.

## **Item 12. Brokerage Practices**

SII has an obligation to provide for "best execution" of client securities transactions and seeks to satisfy this by ensuring the best combination of net price and execution quality when effecting brokerage transactions for clients. In compliance with applicable securities laws, rules and regulations, we consider a range of factors when assessing our clearing brokerage relationship to make this determination, including:

- Transaction costs associated with the purchase and sale of investments;
- The trade execution, clearance, and settlement capabilities of the broker-dealer;
- The size of brokerage transactions accommodated;
- The efficiency and timing of brokerage transactions;

- The activity existing and anticipated in the market for a particular security;
- The nature of the securities being purchased or sold and access to purchasers and sellers within the investing marketplace (which may be limited due to thin trading activity or unavailability of certain securities);
- The financial stability and reputation of the executing broker-dealer; and
- The research products and other services provided for the benefit of SII and its clients.

SII regularly monitors the reporting of execution costs and quality to evaluate the brokerage services provided to its clients in comparison with industry standards, to confirm the reasonableness of our determination.

### **Advisor Solutions, Guaranteed Income Solutions and Strategist Solutions® Programs**

Based on these factors, SII generally requires Advisor Solutions and Strategist Solutions® Program clients to establish a brokerage relationship with Pershing, for whom we serve as an introducing broker-dealer pursuant to a clearing agreement between SII and Pershing (see Directed Brokerage section below). Guaranteed Income Solutions clients will either have their assets held directly with the respective insurance carrier or third party custodian, as determined by the carriers, in addition to establishing/maintaining a brokerage account through SII for fee payment purposes.

### **Maxim Program**

Clients participating in the Maxim Program may establish accounts at Pershing, TD Ameritrade Institutional Services (a division of TD Ameritrade, Inc.), Schwab Institutional (a division of Charles Schwab & Co., Inc.), Fidelity Investments, or TIAA-CREF Individual Institutional Services, LLC. If a client neither designates a broker-dealer nor uses SII's available broker-dealer services, SII will direct security transaction orders for the client's portfolio to a broker-dealer selected by SII, based on terms we deem acceptable and beneficial to the client, consistent with our "best execution" obligations.

### **TPAM Program**

Under our TPAM Program, the TPAM is responsible for determining best execution and typically predetermines the broker-dealer relationship as should be detailed in the TPAM's disclosure documents and agreements, which should be carefully reviewed by clients.

### **Research and Other Soft-Dollar Benefits**

SII does not allocate or direct brokerage transactions to the broker-dealer executing client transactions based on our receipt of products or services (referred to as "Soft-Dollar Transactions").

### **Directed Brokerage**

As noted above, clients who participate in either the Advisor Solutions or Strategist Solutions® Programs are generally required to establish a brokerage account with Pershing, whereas Maxim Program clients may select from several other custodians listed above. In all cases, the selected custodian of client funds and securities maintains these in brokerage accounts registered in the client's name, in addition to effecting trades in client accounts, providing cashiering functions, sending trade confirmations and periodic account statements to clients, and providing portfolio reporting and account administration services.



You should be aware that SII is compensated by Pershing when client securities transactions are executed through Pershing. This industry practice is generally known as “payment for order flow” and does not affect the quality of execution services or SII’s duty to obtain best execution for clients. Client transactions executed through Pershing also pay a ticket charge on their transactions that may include an additional fee charged by SII in its role for servicing these transactions for clients. In addition, various other custodial, transaction, and account administration related fees or charges assessed or received by Pershing may include an amount that is paid to SII for our role in assisting with servicing of client accounts, including fees paid to Pershing for account maintenance, account transfers, margin lending (which enables clients to borrow money to buy additional investments by using existing investments as security collateral), handling of restricted stocks subject to regulatory sales limitations, returned checks, shipping/handling expenses, and account administration and shareholder servicing fees paid in connection with the sale of certain no transaction fee (“NTF”) mutual funds.

Not all investment advisory firms require their clients to direct their brokerage business to a particular firm, and by doing so we may be unable to achieve most favorable execution and pricing for client transactions. Similarly, SII may agree to allow clients to establish brokerage arrangements with a firm other than Pershing upon request by a client. However, doing so may result in higher costs since we will be unable to obtain aggregated trade cost savings (see immediately below) or to pass along pricing discounts we receive from Pershing, and the extent of services and reporting available to clients through Pershing may be less favorable. You will receive notification if an alternative custodian is appointed to maintain your account, along with its contact information and additional details regarding the arrangement.

### **Aggregation of Trades**

Client trade orders are typically completed independently for each client’s account. However, SII may purchase or sell the same securities or investments for a number of clients at the same time. In these situations, orders for the same security or investments may be combined or “aggregated” to facilitate best execution and to reduce brokerage commissions or other costs charged to clients.

SII places aggregated trade orders in a manner designed to ensure that no participating client is favored over any other client. Specifically, each client that participates in an aggregated transaction participates at the average share price for all of trades placed by SII to fulfill the entire trade order. Securities purchased or sold in aggregated transactions are typically allocated pro-rata to the participating client accounts in proportion to the size of the order placed for each account.

In situations where SII maintains discretion, we may increase or decrease the amount of securities allocated to each account if necessary to avoid holding odd lot (which refers to a trade order for less than the minimum number of shares or units of a security that may be purchased) or small numbers of shares for certain clients. Additionally, if the clearing firm is unable to fully execute an aggregated transaction and SII determines that it would be impractical to allocate a small number of securities among the accounts participating in the transaction on a pro-rata basis, SII may allocate these securities in a manner determined in good faith to be fair and equitable. Clients directing SII to effect trades through a broker-dealer other than Pershing should be aware that they may not benefit from the execution cost savings that may be obtained by aggregated trades placed through SII.

## **Item 13. Review of Accounts**

SII's home office personnel, our Office of Supervisory Jurisdiction Branch Managers (referred to as "OSJs"), and our Representatives monitor client portfolios to identify situations that may warrant either a more detailed review or specific action on behalf of our clients. These reviews may be triggered by concerns regarding the suitability of investments in relation to a client's Investment Profile Information, account inactivity and high concentrations in individual securities, among other factors.

For Advisor Solutions, Guaranteed Income Solutions and TPAM Program accounts, we provide ongoing review of client portfolio holdings, communicate with clients at least annually, and remind clients at least quarterly to inform us of any changes to their Investment Profile Information to ensure the suitability of the investments in their portfolio, any social exclusions or investment restrictions, and all applicable rules and regulations. We also review the investment results of client portfolios on a regular basis and, where appropriate, we may change or recommend a change of the Representative for a client's account.

SII also provides clients with written periodic performance reports that include relevant portfolio information, such as asset allocation, account transactions, securities positions, the fair market values of investments in client portfolios, investment performance for the period, and advance billing notification. SII does not verify performance data provided to it by third parties with exception of the calculation methods and the related account holdings shown. Please refer to the specific Program agreements and related disclosure documents supplied prior to establishing an account to confirm the frequency of review and type of reports to be provided in connection with the respective Programs.

The extent of our review process is typically more limited in the case of our Consulting Service Program and may vary depending on the arrangement negotiated with the Representative.

## **Item 14. Client Referrals and Other Compensation**

Clients need to be aware of and consider potential conflicts of interest related to direct and indirect forms of compensation and benefits SII and our Representatives may receive from third parties in connection with the sale of investment products and services to clients. These forms of compensation are in addition to client advisory fees we receive and create an incentive to recommend certain investment products based on the potential compensation received rather than on a client's needs.

SII maintains a Code of Ethics (see Item 11 above) and policies and procedures that are designed to ensure our Representatives act in the best interest of clients at all times. Representatives are limited in their ability to receive both an advisory fee and asset-based sales compensation or commissions (also referred to as "double-dipping"), and we closely monitor our Representatives' sales practices and all forms of direct and indirect compensation received to ensure they act in compliance with our policies and procedures, industry standards, and all securities laws, rules and regulations governing sales compensation practices.

In addition to providing advisory services through the Consulting Services Program, our Representatives may also sell clients securities products and other investment and insurance products in their capacity as SII registered broker-dealer Representatives and as licensed insurance agents. We receive additional compensation in connection with this activity and the amount of compensation will depend on the type of product purchased. Representatives acting on behalf of SII in a broker-dealer capacity (as opposed to investment advisor) and/or an insurance agency will have a greater financial incentive to sell certain products as opposed to others (for example, a product issued by an affiliate and in the case of mutual funds those that have a higher 12b-1 fee than others). While securities sales are reviewed to confirm they are suitable for a client's Investment Profile Information by an appointed supervisor of SII, clients should be aware of these incentives.

**Premier Product Program and Revenue Sharing.** In compliance with applicable securities laws, rules and regulations, and upon entering into an agreement with the product sponsors of certain mutual funds, variable insurance products, REITs and other investment products, SII may recommend or select these investment products on behalf of clients where (i) SII receives commissions, service/sales charges, revenue sharing payments or other forms of benefit as a result of a client's investment in such investment products and (ii) SII or one of its affiliates is the investment advisor, sponsor, principal underwriter or other service provider and, as such, receives compensation as a result of the client's purchase of the investment product.

These payments to SII are shared with our Representatives and may vary, depending on the Representatives' compensation arrangement with SII. These arrangements generally pay higher amounts for the sale of "packaged products" (like mutual funds, annuities and REITs) over individual stocks and bonds, and provide a higher percentage of the compensation received by SII to Representatives who generate greater revenue for SII. Clients should be aware that this presents a potential conflict of interest because SII and its Representatives may have a greater incentive to recommend or select investments that provide greater compensation to SII or its affiliates. For more information, please see the "Premier Sponsor Program and Revenue Sharing Disclosure" contained on SII's website at [www.siionline.com](http://www.siionline.com) under "Disclosures."

**Premier TPAM Program and Revenue Sharing.** In compliance with applicable law, SII may recommend or select certain TPAMs to manage client accounts where SII receives additional compensation or benefits from the particular TPAM. These payments to SII are shared with our Representatives and may vary depending upon the Representative's compensation arrangement with SII. These arrangements generally pay a higher percentage of the compensation received by SII to Representatives who generate greater revenue for SII. Clients should be aware that this presents a potential conflict of interest because SII and its Representative may have a greater incentive to recommend or select TPAMs that provide additional compensation to SII that is not provided by other TPAMs. For more information, please see the "TPAM Premier Sponsor Program and Revenue Sharing Disclosure" contained on SII's website at [www.siionline.com](http://www.siionline.com) under "Disclosures."

**Mutual Fund Distribution and Servicing Revenue.** In its role as introducing broker-dealer, SII may receive various distribution and marketing fees from the managers of mutual funds held in client accounts pursuant to Rule 12b-1 of the Investment Company Act of 1940 (referred to as “12b-1 fees”), in addition to related fund servicing or administration compensation payable to SII in connection with certain no transaction fee (“NTF”) mutual funds. The amount of fees that are received will vary, depending on the particular mutual fund investments pursuant to distribution agreements between SII as a broker-dealer and the mutual fund sponsors.

**Due Diligence Fees.** SII conducts an initial and ongoing due diligence review of the TPAMs selected for participation in our TPAM Program to ensure they satisfy our approval requirements. SII may collect a fee from TPAMs that participate in our TPAM Program in an effort to defray all or a portion of the costs we incur conducting these reviews. This fee is paid to SII regardless of whether or not we ultimately decide to approve a particular TPAM for inclusion in our TPAM Program. SII does not charge due diligence fees to TPAMs participating in its Premier TPAM Program (please see “Premier TPAM Program and Revenue Sharing” description immediately above), and we may also agree to waive due diligence fees for other TPAMs at our discretion.

**Program Compensation May Vary.** Compensation to SII, including your Representative and certain home office personnel, varies according to the advisory Program in which you participate. The compensation received by SII and these individuals may be more than what we would receive if you participated in another Program or paid for investment advice, brokerage or other services separately. This may provide a financial incentive to recommend a particular Program that pays us a higher amount of compensation than other Programs or services.

SII may provide performance-based compensation to certain of its home office employees related to their promotion of our WealthONE® Program since it generates more revenue for SII than unaffiliated programs. These incentives may result in your Representative having greater exposure and marketing support for the WealthONE® Program over other programs.

**Special Treatment of Certain Qualified Account Types.** For certain qualified retirement account types, we may either (i) provide a client rebate or refuse receipt of any direct or indirect compensation it may otherwise be entitled to receive as a result of a particular client’s purchase of investment products or services (including 12b-1 fees and revenue sharing payments from third parties), or (ii) recommend or select investment share classes or products with lower fees or expenses that may not be made available to non-qualified accounts. Doing so may result in cost savings to these particular client accounts but does not obligate SII to make these same benefits available to other clients.

**Margin Commissions.** In limited situations, SII may permit clients to establish a margin account pursuant to an agreement entered with the custodian. “Margin lending” enables clients to borrow money to buy additional investments by using existing investments as security collateral. In these situations, SII may receive compensation from the custodian in the form of a margin commission that typically amounts to a percentage of the total margin interest charged to clients by the custodian. Clients should carefully read the margin disclosure statement provided by the custodian outlining risks related to margin prior to considering this type of arrangement.

**Pershing FundVest Institutional Program.** Representatives may initiate purchases of participating mutual funds through the Pershing FundVest Institutional Program, subject to minimum purchase amounts. Representatives may have an option to purchase certain of these fund shares without incurring any ticket charges, though this may result in a slightly higher mutual fund operating expense ratio. As such, Representatives who absorb client transaction charges may have an incentive to recommend those mutual funds that do not impose ticket charges over other available funds that may have a slightly lower operating expense.

**Competing Transactions.** SII, Representatives and our affiliates may have a conflict in our role as an investment advisor for other clients and our own accounts to the extent we may initiate competing securities transactions for these clients or our accounts. The investment actions taken may also differ from the recommendations or selections we provide to you. We are not obligated to acquire for your account any investments that may be purchased on behalf of other clients or our own accounts, and you shall have no first refusal, co-investment, or other rights in any such investment. However, we strive to act in good faith and attempt to allocate investment opportunities to you over a period of time on a fair and reasonable basis relative to other clients and our own accounts, and based on your Investment Information Profile.

**Payments to Solicitors.** SII may utilize the services of approved individuals who act as solicitors for purposes of referring clients to us in accordance with SEC regulations and applicable state securities law. These solicitors will generally be paid a portion of the ongoing investment advisory fee charged to the client by SII. Clients referred to SII by a solicitor will not be charged a referral fee and shall remain subject to the same advisory fee schedule as non-referred clients, as set forth above. These solicitation arrangements are required to be disclosed to clients at the time of the referral in a document outlining SII's solicitation compensation arrangement with the particular solicitor.

## **Item 15. Custody**

SII will arrange for you to receive account statements directly from the independent qualified custodian of your account assets. These are your official account statements for valuation, tax and all other purposes. We encourage you to please review the transactions, positions and valuations for accuracy, and to compare this information with any account statements or performance reports you may receive from SII or your Representative. The information contained in your official custodial account statements may vary slightly with that contained in other statements or performance reports you receive, due to differences in the computing method, timing of calculation, and source of valuations. Any concerns should be immediately reported to the SII Compliance Department at (800) 426-5975. You may also contact the respective custodians directly with related questions at:

**Pershing LLC**  
One Pershing Plaza  
Jersey City, NJ 07399

**Charles Schwab & Co., Inc.**  
211 Main Street  
San Francisco, CA 94104

**TD Ameritrade Institutional**  
4075 Sorrento Valley Blvd.,  
Suite A  
San Diego, CA 92121

**Fidelity Investments**  
P.O. Box 77002  
Cincinnati, OH 45277-0090

**TIAA-CREF Individual &  
Institutional Services, LLC**  
730 3<sup>rd</sup> Avenue  
New York, NY 10017-3206

## **Item 16. Investment Discretion**

Clients have the option of providing SII with investment discretion on their behalf, pursuant to a grant of a limited power of attorney contained in our client agreement. By granting SII investment discretion, SII is authorized to execute securities transactions, which securities are bought and sold, the total amount to be bought and sold, and the costs at which the transactions will be effected. Limitations may be imposed by the client in the form of specific constraints on any of these areas of discretion with SII's written acknowledgement.

## **Item 17. Voting Client Securities**

When a client owns stock, they become a shareholder of that company that issues the stock. As a shareholder, clients may have the right to exercise a vote with respect to various corporate matters involving the management of the company in which they hold shares. Rather than doing so directly, clients may grant a "proxy" to enable another person or entity to vote on such matters on their behalf.

**For our Advisor Solutions, Guaranteed Income Solutions, Strategist Solutions® and Consulting Services Programs**, SII and its Representatives will not (a) vote proxies related to any investments held in client accounts or (b) participate in any legal proceedings involving investments held in client accounts, or that involve the sponsors or issuers of any investments (including bankruptcy proceedings). Unless SII and the client make other written arrangements, SII will send all proxy and legal proceeding related documents it receives to the client so that the client may act upon the materials.

**For TPAM Program Accounts**, clients may have the ability to appoint the TPAM as their delegate to act on their behalf to vote proxies relating to any investments in their accounts. In these instances, SII will send all proxy and legal proceeding related information and documents it receives to the TPAM so that the TPAM may take whatever action it deems advisable.

## **Item 18. Financial Information**

Attached for your review is SII's balance sheet outlining its financial condition.

**SII INVESTMENTS, INC.**

(An Indirect, Wholly Owned Subsidiary of Prudential plc)

(SEC Identification No. 8-13963)

Statement of Financial Condition

December 31, 2013

(With Report of Independent Registered Public Accounting Firm Thereon)

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

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

OMB APPROVAL	
OMB Number:	3235-0123
Expires:	March 31, 2016
Estimated average burden hours per response.....	12.00

SEC FILE NUMBER
8- 13963

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 January 1, 2013 AND ENDING December 31, 2013  
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: SII Investments, Inc.

OFFICIAL USE ONLY

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

FIRM I.D. NO.

5555 Grande Market Drive

(No. and Street)

Appleton, WI 54913

(City)

(State)

(Zip Code)

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

Vanessa Lambrechts 310-899-8672

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

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

KPMG, LLP

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

355 South Grand Avenue, Suite 2000, Los Angeles, CA 90071

(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)




## OATH OR AFFIRMATION

I, Vanessa Lambrechts, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of SII Investments, Inc., as of December 31, 2013, 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:

\_\_\_\_\_

\_\_\_\_\_

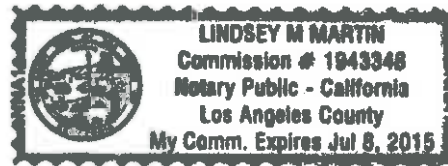
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Signature

VP, Controller

Title

  
Notary Public



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

- ☒ (a) Facing Page.
- ☒ (b) Statement of Financial Condition.
- ☐ (c) Statement of Income (Loss).
- ☐ (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.

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

**SII INVESTMENTS, INC.**  
(An Indirect, Wholly Owned Subsidiary of Prudential plc)

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KPMG LLP  
Suite 2000  
355 South Grand Avenue  
Los Angeles, CA 90071-1568

## **Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholder  
SII Investments, Inc.:

We have audited the accompanying statement of financial condition of SII Investments, Inc. (an indirect, wholly owned subsidiary of Prudential plc) as of December 31, 2013, that is filed pursuant to Rule 17a-5 under the Securities Exchange Act of 1934 and Regulation 1.10 of the Commodity Exchange Act, and the related notes to the statement of financial condition (the financial statement).

### **Management's Responsibility for the Financial Statement**

Management is responsible for the preparation and fair presentation of the financial statement in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statement referred to above presents fairly in all material respects, the financial position of SII Investments, Inc. as of December 31, 2013, in accordance with U.S. generally accepted accounting principles.

**KPMG LLP**

February 21, 2014

**SII INVESTMENTS, INC.**  
(An Indirect, Wholly Owned Subsidiary of Prudential plc)

Statement of Financial Condition

December 31, 2013

**Assets**

Cash and cash equivalents	\$ 18,696,440
Marketable securities	11,940
Commissions receivable	7,601,877
Investment advisory receivable	1,613,044
Forgivable notes receivable, net of accumulated amortization of \$7,055,401	6,919,068
Other receivables	1,096,050
Receivables from registered representatives, net of allowance of \$916,274	979,539
Income taxes receivable	725,580
Deferred tax assets	13,391,330
Fixed assets, net of accumulated depreciation of \$2,177,885	114,467
Prepaid expenses and other assets	693,077
Goodwill	7,658,095
	<hr/>
Total assets	\$ 59,500,507
	<hr/>

**Liabilities and Stockholder's Equity**

Liabilities:	
Drafts payable	\$ 181,474
Commissions payable	7,480,773
Investment advisory payable	1,509,203
Accounts payable and other accrued expenses	2,875,501
Due to affiliates	40,634
	<hr/>
Total liabilities	12,087,585
Stockholder's equity	47,412,922
	<hr/>
Total liabilities and stockholder's equity	\$ 59,500,507
	<hr/>

See accompanying notes to the statement of financial condition.

**SII INVESTMENTS, INC.**  
(An Indirect, Wholly Owned Subsidiary of Prudential plc)

Notes to the Statement of Financial Condition

December 31, 2013

**(1) Organization**

SII Investments, Inc. (the Company) is a wholly owned subsidiary of National Planning Holdings, Inc. (NPH), which in turn is an indirect, wholly owned subsidiary of Prudential plc. The Company is a registered broker-dealer and investment advisor with the Securities and Exchange Commission (SEC), a registered broker-dealer with the Commodity Futures Trading Commission, and is a member of the Financial Industry Regulatory Authority and the National Futures Association. The Company offers financial products (primarily mutual funds and insurance products) through its registered representatives to customers located throughout the United States.

The Company has evaluated events occurring after the balance sheet date (subsequent events) through February 21, 2014, the date the statement of financial condition was available to be issued, to determine whether any subsequent events necessitated adjustment to or disclosure in the statement of financial condition. No such events were identified.

**(2) Significant Accounting Policies**

**(a) *Cash and Cash Equivalents***

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Cash equivalents include \$17,660,327 in money market accounts and \$234,500 in money market funds. Cash held in banks periodically exceeds the Federal Deposit Insurance Corporation's (FDIC) insurance coverage of \$250,000, and as a result, there is a concentration of credit risk related to amounts in excess of FDIC insurance coverage.

**(b) *Marketable Securities***

Securities are carried at fair value based on quoted market prices and are recorded on a trade-date basis. Dividends are recorded on the ex-dividend date, and interest is recorded on the accrual basis.

**(c) *Drafts Payable***

Drafts payable represents amounts drawn by the Company pursuant to a sweep agreement with a bank. Under this agreement, the bank does not advance cash to the Company.

**(d) *Fixed Assets***

Fixed assets are carried at cost, less accumulated depreciation and amortization. Depreciation is computed on a straight-line basis using the estimated useful lives of the assets. Fixed assets consist primarily of equipment, leasehold improvements, and computer hardware and software, which are depreciated over three to seven years. Leasehold improvements are depreciated over the shorter of the estimated useful life or the lease term.

**(e) *Goodwill***

Goodwill represents the excess of the aggregate purchase price over the fair value of the net assets acquired in a purchase business combination. Goodwill is reviewed for impairment at least annually. An entity has the option to perform a qualitative assessment to determine whether it is more likely

**SII INVESTMENTS, INC.**  
(An Indirect, Wholly Owned Subsidiary of Prudential plc)

Notes to the Statement of Financial Condition

December 31, 2013

than not that the fair value of a reporting unit is less than its carrying amount prior to performing the two-step goodwill impairment test. If this is the case, the two-step goodwill impairment test is required. If it is more likely than not that the fair value of a reporting unit is greater than its carrying amount, the two-step goodwill impairment test is not required. If the two-step goodwill impairment test is required, first, the fair value of the enterprise is compared with its carrying value (including goodwill). If the fair value of the enterprise is less than its carrying value, an indication of goodwill impairment exists and the enterprise must perform step two of the impairment test. Under step two, an impairment loss is recognized for any excess of the carrying amount of the enterprise's goodwill over the fair value of that goodwill. The fair value of goodwill is determined by allocating the fair value of the enterprise in a manner similar to a purchase price allocation. The residual fair value after this allocation is the implied fair value of the enterprise's goodwill.

During 2013, the Company performed a qualitative assessment of goodwill and determined that it is not more likely than not that the fair value of the Company is less than the carrying amount. Accordingly, no impairment was recorded in 2013.

**(f) *Income Taxes***

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The Company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs.

The Company is included in a consolidated federal income tax return with Brooke Holdco 1 Inc. (BH1), an indirect, wholly owned subsidiary of Prudential plc. The Company's tax-sharing agreement with BH1 is based on the separate return method and intercompany income taxes are settled on an annual basis. The Company files combined state tax returns in approximately 20 states and separate state income tax returns for the other states that the Company is required to file income tax returns. The Company does not have a right to reimbursement for the utilization of its losses in the federal consolidated tax return.

**(g) *Receivable from Registered Representatives***

Receivable from registered representatives relates to outstanding balances from representatives and forgivable notes offered to registered representatives who have not achieved a predetermined percentage of the agreed-upon gross dealer concessions and must pay down a portion of the note. When it has been determined that a note will be repaid by a representative, the amount to be repaid is reclassified from forgivable notes receivable to receivable from registered representative. Upon

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reclassification, the receivable accrues interest at the stated rate of the note. The Company has not and does not intend to sell these receivables.

The allowance for doubtful accounts is the Company's best estimate of the amount of credit losses in the Company's existing receivable from registered representatives. The allowance is determined on an individual receivable basis upon review of the probability that a registered representative will not repay all principal and interest contractually due. A receivable is impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due, including contractual interest payments. The Company does not accrue interest when a receivable is considered impaired. When ultimate collectability of the principal balance of the impaired receivable is in doubt, all cash receipts on impaired receivables are applied to reduce the principal amount of such receivables until principal has been recovered and are recognized as interest income thereafter. Impairment losses are charged against the allowance. Receivables are written off against the allowance when all possible means of collection have been exhausted and the potential for recovery is considered remote.

**(h) *Use of Estimates***

The preparation of the accompanying statement of financial condition in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions about future events. These estimates and the underlying assumptions affect the amounts of assets and liabilities reported, disclosures about contingent assets and liabilities, and the accompanying notes. These estimates and assumptions are based on management's best estimates and judgment. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment, which management believes to be reasonable under the circumstances. Management adjusts such estimates and assumptions when facts and circumstances dictate.

**(i) *Fair Value Measurements***

The financial instruments of the Company are reported in the statement of financial condition at fair values, or at carrying amounts that approximate fair values because of the short maturity of the instruments. The Company has determined the fair value of money market funds and marketable securities using the market approach as these financial instruments trade in an active market.

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**(3) Income Taxes**

The tax effects of temporary differences that give rise to significant portions of the Company's deferred income tax assets and liabilities are as follows:

Deferred tax assets:	
Forgivable loans	\$ 1,895,331
Allowance for doubtful accounts	348,748
Depreciation	91,393
Deferred compensation	10,864,916
Accrued vacation	75,095
Accrued rent	13,937
Accrued bonus	111,954
Commission held	21,033
Other	93,536
	<hr/>
Total deferred tax assets	13,515,943
	<hr/>
Deferred tax liabilities:	
Prepays	(121,148)
Unrealized gain on marketable securities	(3,465)
	<hr/>
Total deferred tax liabilities	(124,613)
	<hr/>
Net deferred tax assets	\$ 13,391,330
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In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Based upon the projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that the Company will realize the benefits of these deductible differences.

To date, the Company has generated a Michigan net operating loss of \$19,329. A valuation allowance has been placed against the state net operating loss deferred asset as of December 31, 2013 due to the uncertainty of its ultimate realization.

The Company has a state tax receivable of \$198,438 and a federal income tax receivable of \$527,142. As of December 31, 2013, there are no unrecognized tax benefits.

The federal income tax returns for tax years 2009 and 2010 are under examination by the Internal Revenue Service. The federal income tax returns for 2011 and 2012 remain open to examination. The Company does not believe it is probable that a significant change will occur within the coming year to its unrecognized tax benefits.



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**(4) Fair Value Measurements**

The Company's assets recorded at fair value have been categorized based upon a fair value hierarchy in accordance with Accounting Standards Codification (ASC) 820-10, *Fair Value Measurement*. Fair value is defined as the price that would be received to sell an asset or would be paid to transfer a liability (i.e., the exit price) in an orderly transaction between market participants at the measurement date.

ASC 820-10 established a three-level hierarchy for fair value measurements that distinguishes between market participant assumptions developed based on market data obtained from sources independent of the reporting entity (observable inputs) and the reporting entity's own assumptions about market participant assumptions developed based on the best information available in the circumstances (unobservable inputs). The hierarchy level assigned to each security held by the Company is based on the assessment of the transparency and reliability of the inputs used in the valuation of such security at the measurement date. The three hierarchy levels are defined as follows:

- Level 1 – Valuations based on unadjusted quoted market prices in active markets for identical securities
- Level 2 – Valuations based on observable inputs (other than Level 1 prices), such as quoted prices for similar assets at the measurement date; quoted prices in markets that are not active; or other inputs that are observable, either directly or indirectly
- Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement, and involve management judgment

The Company has evaluated its investments in money market funds and marketable securities and determined that based on the unadjusted quoted market prices in active markets used to determine fair value that these are classified as Level 1 investments.

**(5) Clearing Agreement**

The Company is an introducing broker and clears transactions with and for customers on a fully disclosed basis with Pershing LLC, a Bank of New York Mellon company. The Company promptly transmits all customer funds and securities to Pershing LLC. In connection with this arrangement, the Company is contingently liable for its customers' transactions.

**(6) Net Capital Requirements**

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule 15c3-1 (Rule 15c3-1) and is required to maintain a minimum "net capital" equivalent of \$250,000, or 2%, of "aggregate debit items," whichever is greater, as these terms are defined. The Company is also subject to the Commodity Futures Trading Commission's minimum financial requirements (Regulation 1.17), which requires the Company to maintain minimum net capital equal to the minimum net capital required under Rule 15c3-1. As of December 31, 2013, the Company had net capital of \$14,496,779, which was \$14,246,779 in excess of its requirement.

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**(7) Forgivable Notes Receivable**

The Company holds forgivable notes from certain registered representatives. Under the terms of the forgivable notes, the principal is forgiven over a period of time, generally five to seven years. The forgiveness of the notes is contingent upon the continued affiliation of the representative and the representative achieving agreed-upon production levels, measured in terms of gross dealer concessions.

The Company records amortization of the principal balance of the notes monthly on a straight-line basis over the term of the note. Typically, when the representative does not achieve the minimum gross dealer concessions, but does achieve a predetermined percentage of the agreed-upon production levels, the term of the forgivable note may be extended. Under such circumstances, the unamortized balance of the note is amortized over the remaining term. Typically, if the representative achieves an amount lower than the predetermined percentage of the agreed-upon production levels, the representative must pay down a portion of the note, and the remaining balance is amortized over the remaining term. In some instances, when it has been determined that a note will be repaid by a representative, the amount to be repaid is reclassified from forgivable notes receivable to receivable from registered representatives.

The activity in the forgivable notes receivable balance comprises the following:

Balance as of December 31, 2012	\$ 7,741,702
Granted	2,526,750
Amended notes	(2,027,283)
Amortization	<u>(1,322,101)</u>
Balance as of December 31, 2013	<u><u>\$ 6,919,068</u></u>

During 2013, forgivable notes receivable totaling \$2,813,151 became fully amortized and were forgiven by the Company.

**(8) Receivables from Registered Representatives and Allowance for Doubtful Accounts**

Receivables from registered representatives with interest rates ranging from 3.0% to 4.7%. The receivables mature from March 20, 2014 through February 20, 2016	\$ 789,428
Other receivables from registered representatives	<u>190,111</u>
Receivables from registered representatives, net	<u><u>\$ 979,539</u></u>

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The activity in the allowance for doubtful accounts for receivables from registered representatives for the year ended December 31, 2013 comprises the following:

Allowance for doubtful accounts as of beginning of year	\$ 570,814
Additions charged to bad debt expense	355,460
Adjustments to the allowance	<u>(10,000)</u>
Allowance for doubtful accounts as of end of year	\$ <u><u>916,274</u></u>

**(9) Fixed Assets**

The major classifications of fixed assets are as follows:

Leasehold improvements	\$ 569,245
Office equipment, furniture, and fixtures	874,563
Computer hardware and software	<u>848,544</u>
Total fixed assets	2,292,352
Less accumulated depreciation	<u>(2,177,885)</u>
Fixed assets, net	\$ <u><u>114,467</u></u>

**(10) Defined Contribution Plans**

The Company participates with Jackson National Life Insurance Company (Jackson) (which is also an indirect, wholly owned subsidiary of Prudential plc) in defined contribution retirement plans covering all eligible full-time employees. The Company's annual contributions are based on a percentage of covered compensation paid to participating employees during each year.

**(11) Related-Party Transactions**

Jackson, an affiliate of NPH, allocates a portion of its leased office space to the Company based on the proportionate share that the Company utilizes for operations. The Company has committed to pay Jackson based on its proportionate share of leased office space through the term of Jackson's lease, and its current commitments are \$568,633 in years 2014 through 2016, and \$236,930 in 2017.

The Company participates in the allocation of costs in which NPH and the other wholly owned subsidiaries of NPH allocate a portion of their operating expenses to the Company, and the Company allocates a portion of its operating expenses to the other subsidiaries of NPH.

Pursuant to the tax-sharing agreement, the Company paid \$5,685,000 for federal income taxes for the year ended December 31, 2013.

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**(12) Representative Deferred Compensation Program**

The Company has a nonqualified deferred compensation plan for certain registered representatives of the Company. The Company's annual contributions are based on commission revenue production of participating registered representatives during the year. The Company has transferred title and ownership of all amounts credited to each participant's account and all underlying funds to Jackson for the purpose of facilitating administration of the plan.

**(13) Contingencies**

The Company is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Company's financial position or liquidity.