

**Item 1. Cover Page**

**Consulting Services and Financial  
Planning Disclosure Brochure  
Form ADV Part 2A**

**SII INVESTMENTS, INC.®**

5555 W. Grande Market Drive

Appleton, WI 54913

(800) 426-5975

[www.siionline.com](http://www.siionline.com)

March 31, 2017

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 Brochure 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. There have been no material updates made to this Brochure since the last annual update of March 18, 2016.

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

### Item 3. Table of Contents

	Page
Item 1. Cover Page.....	1
Item 2. Material Changes .....	2
Item 3. Table of Contents.....	3
Item 4. Advisory Business .....	4
Item 5. Fees and Compensation.....	7
Item 6. Performance-Based Fees and Side-by-Side Management.....	8
Item 7. Types of Clients .....	8
Item 8. Methods of Analysis, Investment Strategies and Risk of Loss .....	8
Item 9. Disciplinary Information .....	9
Item 10. Other Financial Industry Activities and Affiliations .....	9
Item 11. Code of Ethics, Participation or Interest in Client Transactions and Personal Trading.....	11
Item 12. Brokerage Practices .....	11
Item 13. Review of Accounts .....	12
Item 14. Client Referrals and Other Compensation.....	12
Item 15. Custody.....	13
Item 16. Investment Discretion .....	13
Item 17. Voting Client Securities .....	14
Item 18. Financial Information .....	14

## **Item 4. Advisory Business**

### **Overview of Firm**

SII Investments, Inc.® (“SII”) is an investment advisor registered with the SEC that provides a range of investment advisory services to clients through its licensed Investment Advisor Financial Advisors (“Financial Advisors”). SII and its Financial Advisor may be referred to as “us,” “we” or “our” in this document, and clients may be referred to as “you” and “your.” 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 company incorporated in England and Wales. Prudential plc and its affiliated companies constitute one of the world’s leading financial services groups. It provides insurance and financial services through its subsidiaries and affiliates throughout the world. 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.

### **Overview of Consulting and Financial Services Program**

Although SII also offers brokerage and certain other investment advisory programs and related services, this document is limited to describing the consulting and financial planning services we provide to clients (collectively “Services”). These Services are intended to assist clients seeking (i) generalized investment “education” and guidance to assist in guiding investment decisions, (ii) specific investment “advice” and recommendations regarding your investments and (iii) preparation of a financial plan designed to assist clients in identifying specific long-term financial objectives and needs. The Services are not exclusive and may involve the provision of consulting services in conjunction with preparation of a financial plan depending upon the arrangement discussed with your Financial Advisor. We may also provide Services to retirement plans and plan participants, and in the case of certain qualified accounts subject to the Employee Retirement Income Security Act of 1974, as amended (“ERISA”), we may either act as a fiduciary or non-fiduciary depending upon the particular Services provided and as expressly identified in our Consulting Services Agreements and our Financial Planning Services Agreement.

As noted above, the level of investment guidance provided through our consulting services will vary depending upon the particular arrangement. Services may consist of non-customized, general financial guidance delivered to a client without recommending or directing them to a specific investment option, and may include an explanation of investment concepts and strategies, asset allocation modeling, assistance with interpreting investment performance reports, and the use of interactive investment materials to assist with investment decisions. Financial Advisors may also provide clients with specific investment product recommendations.

Services may involve a broader assessment of a clients overall financial situation and income needs and goals. Such 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 retirement and profit sharing plans. In the case of preparing a financial plan, a report will be delivered by the Financial Advisor analyzing 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 the scope of Services may include your Financial Advisor making recommendations with respect to specific investment products or services, the decision to implement any such recommendation rests exclusively with the client, and the client has no obligation to implement any such recommendation. Further, neither SII nor your Financial Advisor are generally permitted to effect any trades on your behalf with respect to any specific securities recommendations or Services outlined in this Brochure, and you will typically be required to initiate all purchases and sales of securities in your portfolio directly with the applicable third party custodian or trading platform.

As you should be aware, all investment programs involve risk and there is no guarantee that using our Services will produce favorable results. Please carefully review the information and statements contained in any investment related materials or the particular financial plan presented by our Financial Advisor, 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**

The investment 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 Financial Advisor gathering information from you regarding your financial situation, goals and, objectives, including information regarding your investment time horizon (this is the length of time before you intend to sell your investments), risk tolerance (certain investments are more risky than others), and other factors that may be relevant to your situation, which together we refer to as the "Investment Profile." This information assists the Financial Advisor in determining which Services and investments are most appropriate to recommend. It is important that you provide accurate and complete responses to the questions asked by the Financial Advisor in gathering your Investment Profile, and that you promptly inform the Financial Advisor of any subsequent changes to your Investment Profile.

### **Benefit Plan Accounts**

SII may provide Services to (a) employee benefit plans described in Section 401(a) or 403(a) of the Internal Revenue Code of 1986, as amended (the "Code"); (b) individuals with retirement accounts or annuities as defined in Section 408 of the Code ("IRAs"); or (c) other plans or arrangements subject to the Employee Retirement Income Security Act of 1974, as amended ("ERISA") or Section 4975 of the Code (collectively, "Benefit Plan"). For plan level arrangements, an investment strategy is chosen by an independent fiduciary (as opposed to SII) that is responsible for overseeing the respective Benefit Plan (or the Benefit Plan participant for certain self-directed participant accounts, IRAs or other accounts that do not have independent fiduciaries). The selected investment options and restrictions, if any, then serve as the Investment Policy Statement for the Benefit Plan account to the extent such becomes relevant to the particular Services selected. We may provide Services to responsible plan fiduciaries or their designees, as well as participants of self-directed retirement plans.

In the case of Benefit Plan clients, the Services are intended to comply with applicable exemptive relief under ERISA and the Code permitting our receipt of such fees. In connection with that relief, as it applies to arrangements involving the furnishing of services to Benefit Plans that are "covered plans" within the meaning of U.S. Department of Labor Regulation §2550.408b-2(c)(1)(ii), the following disclosures are provided:

- The Services provided are described in your separate consulting services agreement (“Agreement”) with SII, together with this Brochure.
- In providing Services, SII is acting as an investment adviser registered under the Investment Advisers Act of 1940.
- Depending upon the particular Services expressly designated in your Agreement, SII may act as a (i) fiduciary (within the meaning of Section 3(21) of ERISA) if the Services include the provision of “investment advice” or (ii) a non-fiduciary if the Services are limited to “investment education” alone. As noted above, this will be designated in your Agreement with SII.
- The “direct compensation” (within the meaning of U.S. Department of Labor regulation §2550.408b-2(c)(1)(iii)(D)(2)) that SII expects to receive in connection with its provision of Services consists of (a) the Management Fee, as described in the section of this Brochure entitled “Fee Payment” under Item 5 below and within the Fee Schedule to your Agreement with us. As noted under “Third Party Fees” of Item 5, you may also pay various fees to third parties with which you have entered separate arrangements. SII does not expect to receive any “indirect compensation” under the Program (within the meaning of U.S. Department of Labor Regulation §2550.408b-2(c)(1)(iii)(D)(2)).
- Upon termination of your participation in the Services, you may be entitled to receive a pro-rata rebate of any fees which have been paid in advance for Services not yet provided.
- Neither SII, our Financial Advisors or our respective affiliates or subcontractors provide recordkeeping services under the Program.
- If you are an individual account plan (as defined in Section 3(34) of ERISA) that permits participants and beneficiaries to direct the investment of their accounts and one or more designated investment alternatives for the plan is provided through the Program, you will be provided a copy of the prospectus or other offering materials for each such designated investment alternative that describes (i) any compensation charged directly against investment in the designated investment alternative; (ii) the total annual operating expenses for the designated investment alternative, expressed as a percentage and calculated in accordance with U.S. Department of Labor §2550.404a-5(h)(5); and (iii) any other material information that is required for the administrator of the plan to comply with the disclosure obligations described in U.S. Department of Labor §2550.404a-5(d)(1). Although SII and your Financial Advisor are not responsible for delivering these documents to you, we may be able to assist you in obtaining copies of these documents upon request.
- If there is any material change to information described in the above Benefit Plan disclosures, to this Brochure more generally or in relation to your investment advisory and brokerage agreements with SII, you will be notified of such change within at least thirty (30) days from the date on which we learn of the change.

- For retirement plan sponsors, we will arrange, upon the reasonable request of your independent plan fiduciary or plan administrator, to furnish any other information relating to the compensation received in connection with the furnishing of Services that is required for you to comply with the reporting and disclosure requirements of Title 1 of ERISA and the regulations, forms, and schedules issued thereunder.

### **Assets Under Management**

SII has \$4,121,488,030.21 in discretionary assets under management and \$159,749,296.42 in non-discretionary assets under management, calculated as of December 31, 2016.

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

The fees for our Services are negotiated between the Financial Advisor and client and will vary depending on the scope of the particular Services desired. Fees are generally charged on an hourly basis or as a fixed fee for the Services. However, all fee arrangements are negotiable and SII and its Financial Advisors may agree to waive or reduce certain fees either on an ongoing or a one-time basis. Your specific fees will be detailed in the fee schedule to your Consulting Services and/or Financial Planning Services Agreement, and any pre-paid fees will be reimbursed on a pro-rata basis upon its termination.

**Fee Payment.** Your Financial Advisor will assess and collect fee payments either from you directly via an itemized billing statement or from the applicable custodian of your investment account as may be authorized separately by you. Any fee payments to your Financial Advisor must be made payable to SII and should never name your Financial Advisor or your Financial Advisor's business entity as the payee. Fees may be collected either in advance or after Services have been provided as negotiated between you and your Financial Advisor.

**Third Party Fees.** Certain investment products and programs may have separate or internal fees and costs which are not assessed or received by SII or your Financial Advisor. These include clearing firm fees, third party investment advisory fees, internal mutual fund operating expenses, and management fees assessed by sponsors of other types of investment products.. 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. If you have retained the services of third party asset managers, they too will typically have a separate fee as outlined in their account agreement and/or Form ADV disclosure brochure. 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.

- a. Compensation for Other Investment Products and Services.** In the course of providing our Services, Financial Advisors may recommend other investment products and programs offered through SII for which we receive direct and indirect forms of compensation. Such compensation may be payable to us in the form of sales commissions, distribution fees or administrative servicing fees we receive from the sponsors of certain investment products, as well as separate fees we charge for enrollment in our other investment advisory programs. The receipt of this type of compensation presents a conflict of interest and gives us an incentive to recommend investment products and programs based on the compensation received, rather than on a client's needs. Please see Items 10 and 14 below for additional detail regarding

our receipt of this type of compensation, the conflicts it creates, and how we address these conflicts.

- b. Compensation for Outside Business Activities.** In addition to providing Services on behalf of SII, certain Financial Advisors may also recommend and provide additional services outside of SII through unrelated businesses with which they are associated, such as a separately registered investment advisor firms, accounting, tax preparation and other financial related services. These outside business activities typically involve separate charges from those fees payable to SII for our Services, and presents a conflict of interest to the extent that your Financial Advisor may have a financial incentive in recommending its separate services from those available through SII or other service providers. Please see Items 10 and 14 below for additional details about conflicts of interest, and review your Financial Advisor's Form ADV, Part 2B to verify whether they engage in any such outside business activities.

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

SII does not assess fees based on the performance of assets for which your Financial Advisor is providing you with our Services.

## **Item 7. Types of Clients**

SII provides its advisory services to a variety of different client types, including individuals, corporate entities, trusts, and retirement plans and their participants. Financial Advisors reserve the right to require minimum asset requirements they elect to service.

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

Our Financial Advisors 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 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 recommended 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 Services are generally more suited for investors seeking long-term investment objectives or strategies, rather than for short-term trading purposes, although short-term investment strategy recommendations may be made available by Financial Advisor to accommodate certain needs or circumstances.

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 .

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, third party investment advisors or product sponsors to better understand the risks associated with any investment programs or products under consideration.

## **Item 9. Disciplinary Information**

The disclosure requirements of this document require that SII disclose the following disciplinary information for your consideration:

**December 23, 2014 Florida Department of Financial Services administrative penalty of \$5,500** – SII entered into a Consent Order for failure to timely file applications for certain branch locations engaged in the business of insurance as required by Section 626.112(7) of the Florida Statutes.

## **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"), and National Planning Corporation® ("NPC®") 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 and NPC® 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**

In providing our Services, Financial Advisors may recommend investment products and programs offered by our affiliate, Jackson National Life Insurance. Financial Advisors may also recommend services offered through investment advisory firms that are unaffiliated with SII from which we may receive direct and/or indirect compensation, including outside registered investment advisor firms with which your Financial Advisor may be separately associated. This presents a conflict of interest where we have a financial incentive to recommend certain investment products or programs that result in increased compensation versus other similar offerings that may be available.

SII monitors the sales practices and all forms of direct and indirect compensation received by our Financial Advisors when acting on our behalf to ensure they are acting in compliance with SII’s policies and procedures, which are designed to prevent abuses, and to ensure that any recommendations or compensation are within industry standards and compliant with securities laws, rules and regulations. As noted, certain Financial Advisors may also be associated with outside investment advisor firms or other businesses that are separate from SII, and we encourage you to review their Form ADV, Part 2A brochure (where applicable for outside investment advisor firms) and to otherwise discuss the presence and handling of any conflicts of interest with them. You should also do so for any third party asset managers providing services to you. Your Financial Advisor will assist in obtaining and providing these documents to you upon request.

## **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 Financial Advisor. The Code of Ethics applies to all SII Financial Advisors 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 Financial Advisors and covered personnel are:

- Pre-approval and reporting of personal securities transactions;
- 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.

We may recommend certain insurance products which are sponsored by our affiliate, Jackson National Life Insurance. This may present a conflict of interest since we have a financial incentive to recommend affiliated investment offerings that result in increased compensation versus other similar offerings that may be available. We may also engage transactions for our accounts or the accounts of others involving the same investments we recommend for our clients. SII monitors the sales practices and all forms of direct and indirect compensation received by our Financial Advisors when acting on our behalf to ensure they are acting in compliance with SII's policies and procedures, which are designed to prevent abuses, and to ensure that any recommendations or compensation are within industry standards and compliant with securities laws, rules and regulations.

SII, Financial Advisors 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 Profile.

Please refer to Items 5(a) – (b), 10 and 14 for more detailed information on these and various other conflicts of interest and how we address them.

## **Item 12. Brokerage Practices**

The Services outlined in this Brochure typically involve pre-existing arrangements between you and a third party custodian where your assets are maintained. Accordingly, SII does not provide brokerage services and its Financial Advisors are generally prohibited from effecting

any securities purchases or sales on your behalf. Please note that your clearing firm may assess various charges for its services, including without limitation, brokerage transaction fees, cashiering fees, account maintenance fees and such other fees set forth in its fee schedule. In the course of providing the Services, Financial Advisors may recommend separate investment products and programs available through our trading platform where we do provide brokerage services, the details of which will be addressed separately in the respective Form ADV, Part 2A brochure for these programs where applicable.

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

Depending upon the scope of Services negotiated with your Financial Advisor, SII's home office personnel, our Office of Supervisory Jurisdiction Branch Managers (referred to as "OSJs"), and our Financial Advisors may review a client's Investment Profile and portfolio to identify situations that may warrant either a more detailed review or specific action on behalf of our clients. These reviews typically occur at the outset of our relationship with you and remain limited given our lack of access to transaction and portfolio information for accounts maintained through third party investment platforms.

Your Financial Advisor may also provide you with a financial plan, performance reports or aggregated holdings reports using third party software applications or tools. SII does not verify performance data or the accuracy of information contained in such third party reports.

You should receive periodic account statements directly from the third party qualified custodian of your assets, as applicable. These are your official account statements for valuation, tax and all other purposes. We encourage you to review the transactions, positions and valuations for accuracy, and to compare this information with any reports you may receive from SII or your Financial Advisor. 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.

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

Clients need to be aware of, and consider, conflicts of interest related to direct and indirect forms of compensation and benefits SII and our Financial Advisors 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 consulting fees we receive for the Services 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 Financial Advisors act in the best interest of clients at all times. Financial Advisors 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 Financial Advisor's 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. As noted previously, we encourage you to discuss their practices

with respect to any outside business activities they are engaged which are unrelated to SII and fall outside the scope of our supervision.

In addition to providing advisory services through the Consulting Services Program, our Financial Advisors may also sell clients securities products and other investment and insurance products in their capacity as SII registered broker-dealer Financial Advisors 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. Financial Advisors 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 effected through SII are reviewed to confirm they are suitable for a client's Investment Profile by an appointed supervisor of SII, clients should be aware of these incentives.

**Other Investment Products and Programs.** In the course of providing Services, Financial Advisors may recommend certain investment products or other services for which we receive direct and indirect compensation. This may occur if our Financial Advisor recommends other investment advisory programs or brokerage services offered through SII for which they may earn additional fees or commissions. As noted, Financial Advisors may also be engaged or affiliated with outside business activities unrelated and unsupervised by SII, including outside registered investment advisor firms, accounting, tax preparation, and other financial related services. We encourage you to review your Financial Advisor's Form ADV, Part 2B to verify whether they are engaged in any outside business activities, and to discuss with them the handling of any conflicts of interest that may exist outside of SII. Please also review Items 5(a) – (b), 10 and 11 above.

**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 consulting 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 does not provide or arrange for custody of client investment assets with respect to the Services outlined in this Brochure.

## **Item 16. Investment Discretion**

SII and its Financial Advisors do not have any investment discretion and are prohibited from purchasing or selling any securities or other investments on behalf of clients with respect to the Services outlined in this Brochure.

## **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.

SII and its Financial Advisors will not (a) vote proxies related to any investments held 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). In the event SII or your Financial Advisor receive any such materials on behalf of a client, we will send all proxy and legal proceeding related documents received to the client or, as applicable, designee so that the client may act upon the materials.

## **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, 2016

(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:	May 31, 2017
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, 2016 AND ENDING December 31, 2016  
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER:

OFFICIAL USE ONLY

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

FIRM I.D. NO.

SII Investments, Inc. 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)

550 South Hope Street, Suite 1500 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)



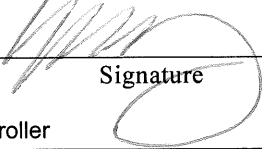
## OATH OR AFFIRMATION

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, 20 16, 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:

\_\_\_\_\_

\_\_\_\_\_

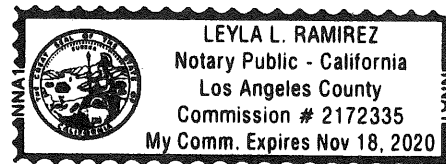
\_\_\_\_\_

  
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)

**Table of Contents**

	<b>Page</b>
Report of Independent Registered Public Accounting Firm	1
Statement of Financial Condition	2
Notes to the Statement of Financial Condition	3



KPMG LLP  
Suite 1500  
550 South Hope Street  
Los Angeles, CA 90071-2629

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

The Board of Directors  
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, 2016 (the financial statement). The financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statement based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2016, in conformity with U.S. generally accepted accounting principles.

As discussed in note 2 to the accompanying financial statement, the Company's retained earnings as of December 31, 2015 has been restated to correct a misstatement in the Company's previously issued financial statements.

**KPMG LLP**

Los Angeles, California  
March 30, 2017

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

Statement of Financial Condition

December 31, 2016

**Assets**

Cash and cash equivalents	\$ 21,198,516
Restricted cash	1,143,997
Marketable securities	20,136
Commissions receivable	6,912,985
Clearing receivable	381,887
Investment advisory receivable	2,418,150
Forgivable notes receivable, net of accumulated amortization of \$4,502,500	4,857,821
Receivables from registered representatives, net of allowance of \$551,483	895,317
Other receivables	715,116
Due from affiliates	46,324,256
Income taxes receivable	932,868
Deferred tax assets	15,391,519
Fixed assets, net of accumulated depreciation of \$1,766,804	127,173
Prepaid expenses and other assets	702,360
Goodwill	7,658,095
	<hr/>
Total assets	\$ 109,680,196

**Liabilities and Stockholder's Equity**

Liabilities:	
Commissions payable	\$ 6,784,207
Investment advisory payable	2,289,662
Accounts payable and other accrued expenses	3,873,152
Registered representatives' deferred commissions payable	46,281,580
Due to affiliates	156,256
	<hr/>
Total liabilities	59,384,857
Stockholder's equity	50,295,339
	<hr/>
Total liabilities and stockholder's equity	\$ 109,680,196

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, 2016

**(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, London, England. The Company is a registered broker-dealer and investment advisor with the Securities and Exchange Commission (SEC), an introducing broker with the Commodity Futures Trading Commission (CFTC), a member of the Financial Industry Regulatory Authority (FINRA) 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 March 30, 2017, 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 events other than those discussed in note 2 were identified.

**(2) Restatement**

In preparing the December 31, 2016 statement of financial condition, the Company identified an accounting error related to the accounting treatment for the assets and liabilities of its non-qualified Registered Representatives' Deferred Commission Plan (the "Plan") and the deferred commission match and discretionary credits.

The Company sponsors this Plan for its registered representatives and as of December 31, 2016 the Plan was subject to an Administrative Services and Assumption Agreement with Jackson National Life Insurance Company ("Jackson"), an affiliate of NPH, effective December 1, 2000, (the "ASA") wherein Jackson provides administrative services to the Company. Under the terms of the ASA, the Company agreed to transfer title and ownership of amounts equal to amounts deferred pursuant to the Plan to Jackson, which invests the assets. Jackson, in turn, agreed to assume, pay, perform, and discharge the Company's debts and obligations under the Plan, including the claims of the Company's creditors that could be asserted against the amounts the Company transferred to Jackson. Jackson also agreed to transfer to the Company such amounts as the Company requested for obligations owed to registered representatives under the Plan.

Since the inception of the Plan, and through February 9, 2017, the Company had not reflected assets or liabilities related to the Plan on its statement of financial condition, nor in net capital calculations. The Company's accounting treatment and net capital calculations assumed the liability had been discharged from the Company since title and ownership of the Plan assets were transferred to Jackson.

On February 9, 2017, the Company determined that the Plan liabilities were not legally assumed by Jackson. As a result, the Company recorded a liability and related affiliate receivable as of December 31, 2016. Under relevant guidance NTM 03-63, the related affiliate receivable from Jackson was not an allowable asset for net capital purposes and thus net capital requirements were not met. The Company immediately remedied the matter on February 9, 2017 by requesting Jackson return the vested and unvested Plan balances to ensure compliance with its net capital requirements. The Company received payment of the December 31, 2016 receivable balance owed of \$46,686,230 from Jackson on February 9, 2017. The Company and Jackson have terminated the ASA.

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

Notes to the Statement of Financial Condition

December 31, 2016

The Company also incorrectly accounted for the deferred commission match and discretionary credits as these amounts were expensed when contributed rather than when vested over the required future service period. Accordingly, the Company should not have expensed the Plan match and discretionary credits until the participants satisfied the required service period. The Company has changed its method to properly account for the Company contributions over the vesting period. The correction of the accounting error resulted in a restatement to prior period retained earnings, net of tax, in the amount of \$356,580.

The table below summarizes the impact of the corrections to the previously issued statement of financial condition as of December 31, 2015:

	<b>2015</b>		
	<b>As reported</b>	<b>Adjustment (net of tax)</b>	<b>As restated</b>
Assets	68,344,685	43,828,298	112,172,983
Liabilities	12,203,750	43,471,717	55,675,467
Retained earnings	26,154,938	356,580	26,511,518
Net capital for regulatory purposes (deficiency)	23,480,190	(43,471,717)	(19,991,527)

**(3) 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 \$19,898,726 in money market accounts and \$292,700 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) Restricted Cash**

The Company is required by its regulators, including the SEC and CFTC, to segregate cash to satisfy rules regarding the protection of customer assets. As of December 31, 2016, total cash of \$1,143,997 is segregated into a separate account for the exclusive benefit of customers.

**(c) 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.

**(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 furniture and equipment, and computer hardware and software, which are depreciated

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

Notes to the Statement of Financial Condition

December 31, 2016

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. In September 2011, the FASB issued ASU 2011-08, Testing Goodwill for Impairment, which provides an entity the option to perform a qualitative assessment to determine whether it is more likely 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. The Company adopted this guidance in 2012.

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.

For 2016, the Company performed a qualitative assessment of goodwill and determined that it is more likely than not that the fair value of the Company is greater than the carrying amount. Accordingly, no impairment was recorded in 2016.

**(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 statement of financial condition carrying amounts of existing assets and liabilities and their respective tax bases, as well as 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 (Holdco1), 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 any intercompany income taxes are settled on an annual basis. The Company files combined state tax returns in approximately 25 states

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

Notes to the Statement of Financial Condition

December 31, 2016

and separate state income tax returns for the other states in which the Company is required to file income tax returns.

**(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 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 (GAAP) 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. 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.

The following table presents the carrying amounts and estimated fair values of the Company's financial instruments that are not carried at fair value in the statement of financial condition as of



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

Notes to the Statement of Financial Condition

December 31, 2016

December, 31, 2016, as computed in accordance with the GAAP definition of fair value (an exit price concept, refer to note 5 for further discussion), on the statement of financial condition.

	<b>2016</b>	
	<b>Carrying amount</b>	<b>Fair value</b>
Financial assets:		
Cash and cash equivalents	\$ 21,198,516	21,198,516
Restricted cash	1,143,997	1,143,997
Commissions receivable	6,912,985	6,912,985
Investment advisory receivable	2,418,150	2,418,150
Receivable from registered representatives, net	895,317	904,900
Financial liabilities:		
Commissions payable	6,784,207	6,784,207
Investment advisory payable	2,289,662	2,289,662

*Short-term financial instruments:* The carrying value of short-term financial instruments, including cash and cash equivalents, restricted cash pursuant to federal regulations, and other segregated assets, are recorded at amounts that approximate the fair value of these instruments.

*Commissions and investment advisory receivable:* Product sponsor receivables and receivables from clearing firms are recorded at amounts that approximate fair value. As these amounts are converted into cash within 30 days, their cost basis approximates their fair value at year end.

*Receivable from registered representatives, net:* These financial instruments are mainly comprised of loans provided to registered representatives, primarily for acquisitions, expansions, and retention purposes. Such loans are generally repaid over a five to seven-year period. These financial instruments also include forgivable loans that have defaulted and are in the process of being repaid or pursued by legal means and are recorded at cost less an allowance for doubtful accounts, as well as receivables from representatives that approximate fair value and are generally converted to cash.

The fair value of receivables from registered representatives, net, is determined through application of a discounted cash flow analysis, based on the contractual maturities of the underlying loans discounted at the weighted average of current market interest rates associated with such loans. The receivables from representatives, excluding loans, are generally received within 30 days, as such, their cost basis is approximately fair value.

*Commission and investment advisory payables:* Payables due to registered representatives are recorded at amounts that approximate fair value and are expected to settle within 30 days.

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

Notes to the Statement of Financial Condition

December 31, 2016

**(4) 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:

Forgivable notes	\$ 1,058,627
Allowance for doubtful accounts	210,620
Deferred compensation	18,202,303
Depreciation	70,560
Accrued vacation	82,069
Accrued bonus	93,834
Accrued rent	3,069
Commission held	6,502
Other	91,678
	<hr/>
Total deferred tax assets	19,819,262
	<hr/>
Deferred tax liabilities:	
Deferred compensation gain	(4,299,061)
Prepays	(122,074)
Unrealized gain on marketable securities	(6,608)
	<hr/>
Total deferred tax liabilities	(4,427,743)
	<hr/>
Net deferred tax assets	\$ 15,391,519
	<hr/> <hr/>

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 \$42,095. A valuation allowance has been placed against the state net operating loss deferred asset as of December 31, 2016 due to the uncertainty of its ultimate realization.

The Company has a state tax receivable of \$165,593 and a federal income tax receivable of \$767,275. As of December 31, 2016, there are no unrecognized tax benefits.

The federal income tax returns for 2013, 2014, and 2015 remain open to examination. The Company files income tax returns in all states. The Massachusetts and Wisconsin income tax returns for tax years 2011 through 2013 are under examination by the Massachusetts Department of Revenue and the Wisconsin Department of Revenue. The state income tax returns for 2013, 2014 and 2015 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.

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

Notes to the Statement of Financial Condition

December 31, 2016

In March 2017, the Company requested consent from the IRS to change its method of accounting related to its nonqualified deferred commission plan.

**(5) 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. All other financial instruments are classified as Level 2 investments.

**(6) 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.

**(7) 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 minimum "net capital" equivalent to \$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.

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

Notes to the Statement of Financial Condition

December 31, 2016

On February 10, 2017, pursuant to Rule 17a-11 under the Securities Exchange Act of 1934 (the “Exchange Act”), the Company provided notice that its net capital fell below the minimum amount required by Rule 15c3-1 under the Exchange Act. With the recognition of the Plan assets and liabilities as discussed in note 2, effective December 31, 2016, the Company had a net capital deficiency of \$28,295,149, which was a \$28,545,149 deficit of its requirement. The Company remedied the matter on February 9, 2017 to ensure compliance with its net capital requirements. Further discussion of the Plan is included in note 2.

**(8) 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. However, if the representative achieves an amount lower than the predetermined percentage of the agreed-upon production levels, the note is amended, the representative must pay down a portion of the note, and the remaining balance is amortized over the remaining term. 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.

During 2016, forgivable notes receivable totaling \$3,005,571 became fully amortized and were forgiven by the Company.

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

Receivables from registered representatives with interest rates ranging from

4.25% to 5.50%. The receivables mature from April 20, 2017 through

April 20, 2022

Allowance for receivables from registered representatives

Receivables from registered representatives, net

Other receivables from registered representatives

Allowance for other receivables from registered representatives

Other receivables from registered representatives, net

Total receivables from registered representatives, net

\$	1,186,851
	(541,514)
	<u>645,337</u>
	259,949
	<u>(9,969)</u>
	<u>249,980</u>
\$	<u><u>895,317</u></u>

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

Notes to the Statement of Financial Condition

December 31, 2016

**(10) Fixed Assets**

The major classifications of fixed assets are as follows:

Leasehold improvements	\$ 571,485
Office equipment, furniture, and fixtures	846,818
Computer hardware and software	<u>475,674</u>
Total fixed assets	1,893,977
Less accumulated depreciation	<u>(1,766,804)</u>
Fixed assets, net	<u><u>\$ 127,173</u></u>

**(11) Employee Defined Contribution Plans**

The Company participates with Jackson in a defined contribution retirement plan 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.

**(12) Registered Representative Deferred Commission Program**

The Company sponsors a non-qualified deferred commission plan for its registered representatives (the "Plan"). This Plan was subject to the Company's ASA with Jackson, wherein, the Company agreed to transfer title and ownership of amounts equal to amounts deferred pursuant to the Plan to Jackson, which invests the assets. Jackson, in turn, agreed under the ASA to assume, pay, perform, and discharge the Company's debts and obligations under the Plan, including the claims of the Company's creditors that could be asserted against the amounts the Company transferred to Jackson. The ASA was terminated effective March 1, 2017 upon return of all assets under the ASA to the Company by Jackson on February 9, 2017.

The Company furnishes a Plan document and summary each plan year which is available to its representatives eligible to participate in the Plan. The Plan document and summary discloses the following to its registered representatives: (i) the Company's practice to transfer to Jackson title and ownership of amounts allocated to the representatives' accounts under the Plan for the purpose of facilitating Plan administration, (ii) Jackson would return assets to the Company for payment pursuant to the Plan, and (iii) the assets transferred to Jackson remain subject to the claims of the Company's general creditors.

Consistent with the terms of the Plan, the Company transferred to Jackson from time to time cash amounts equal to the amount of deferred commissions and other credits allocated to representatives' accounts. Jackson, in turn, made all required payments to the Company to pay benefits owed to registered representatives under the Plan as payments became due.

Representatives are always fully vested in their contributions; however, any Company match or discretionary contribution is subject to a 5-year vesting schedule, or 20% per year, notwithstanding a participant who becomes fully vested due to a death or disability. Company matching and discretionary contributions are based in part on the amount deferred and commission revenue production during the plan

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

Notes to the Statement of Financial Condition

December 31, 2016

year, and are expensed over the relevant vesting period. The Company may also allocate special discretionary credits from time to time.

The vested liability at December 31, 2016 was \$46,281,580 and is included in the registered representatives' deferred commissions payable in the accompanying statement of financial condition. The related receivable from Jackson is \$46,686,230 which includes both the vested and unvested balance at December 31, 2016 and is included in due from affiliates in the accompanying statement of financial condition. On February 9, 2017, Jackson transferred cash equivalent to the vested and unvested Plan balances at December 31, 2016.

**(13) Related-Party Transactions**

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. Jackson allocates the shared services expense based on the percentage of time spent on activities related to the Company.

Jackson has assigned interest to the Company and the Company pays for a portion of its leased office space based on the proportionate share that the Company utilizes for operations. The Company has committed to pay based on its proportionate share of leased office space through the term of Jackson's lease, and its current commitments are \$386,799 in 2017, \$663,085 in 2018, \$674,691 in 2019, \$682,981 in 2020, \$694,933 in 2021, and \$293,113 in 2022. These commitments are subject to change in future periods based on usage factors of the office space.

Pursuant to the tax sharing agreement, the Company paid \$1,191,000 and \$124,155 for federal and state income taxes, respectively, for the year ended December 31, 2016.

**(14) 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, results of operations, or liquidity.



KPMG LLP  
Suite 1500  
550 South Hope Street  
Los Angeles, CA 90071-2629

**Report of Independent Registered Public Accounting Firm  
on Internal Control Pursuant to Commodity Futures Trading Commission Regulation 1.16**

The Board of Directors  
SII Investments, Inc.:

In planning and performing our audit of the financial statements of SII Investments, Inc. (the Company) (an indirect, wholly owned subsidiary of Prudential plc) as of and for the year ended December 31, 2016, in accordance with the standards of the Public Company Accounting Oversight Board (United States), we considered the Company's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

Also, as required by Regulation 1.16 of the Commodity Futures Trading Commission (CFTC), we have made a study of the practices and procedures followed by the Company including consideration of control activities for safeguarding customer and firm assets. This study included tests of such practices and procedures that we considered relevant to the objectives stated in Regulation 1.16, in making the periodic computations of minimum financial requirements pursuant to Regulation 1.17 of the CFTC. Because the Company does not carry futures accounts for customers or perform custodial functions relating to customer futures transactions, we did not review the practices and procedures followed by the Company in any of the following:

1. The daily computations of the segregation requirements of Section 4d(a)(2) of the Commodity Exchange Act and the regulations thereunder, and the segregation of funds based on such computations; and
2. The daily computations of the foreign futures and foreign options secured amount requirements pursuant to Regulation 30.7 of the CFTC.

Management of the Company is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls, and of the practices and procedures referred to in the preceding paragraph, and to assess whether those practices and procedures can be expected to achieve the CFTC's previously mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable but not absolute assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in conformity with U.S. generally accepted accounting principles. Regulation 1.16(d)(2) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in internal control and the practices and procedures referred to above, error or fraud may occur and not be detected. Also, projection of any evaluation of internal control to future periods is subject to the risk that controls may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.



A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the company's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control was for the limited purpose described in the first and second paragraphs and would not necessarily identify all deficiencies in internal control that might be material weaknesses. However, we identified a deficiency in internal control that we consider to be a material weakness. These conditions were considered in determining the nature, timing, and extent of the procedures performed in our audit of the financial statements of the Company as of and for the year ended December 31, 2016, and this report does not affect our report thereon dated March 30, 2017.

The material weakness relates to the Company's control over the review of the accounting for the deferred commission plan as it relates to assessing the extinguishment of liabilities and the timing of recognition of the discretionary contributions that vest over time.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the CFTC to be adequate for their purposes in accordance with the Commodity Exchange Act and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures, as described in the second paragraph of this report, were not adequate at December 31, 2016, to meet the CFTC's objectives. We identified a deficiency, described above, in the control activities over the proper presentation of the Company's financial statements and in making the periodic computations of minimum financial requirements pursuant to Regulation 1.17 of the CFTC that we consider to be a material inadequacy. These conditions were considered in determining the nature, timing and extent of the procedures performed in our audit of the financial statements of the Company as of and for the year-ended December 31, 2016, and this report does not affect our report thereon dated March 30, 2017.

This report is intended solely for the information and use of the Board of Directors, management, the CFTC, the National Futures Association, and other regulatory agencies that rely on Regulation 1.16 of the CFTC in their regulation of introducing broker dealers, and is not intended to be and should not be used by anyone other than these specified parties.

*KPMG LLP*

Los Angeles, California  
March 30, 2017