

**UNITED STATES OF AMERICA**  
**Before the**  
**SECURITIES AND EXCHANGE COMMISSION**

**SECURITIES EXCHANGE ACT OF 1934**  
**Release No. 90790 / December 23, 2020**

**INVESTMENT ADVISERS ACT OF 1940**  
**Release No. 5657 / December 23, 2020**

**ADMINISTRATIVE PROCEEDING**  
**File No. 3-20190**

**In the Matter of**

**PRUCO SECURITIES, LLC**

**Respondent.**

**ORDER INSTITUTING ADMINISTRATIVE  
AND CEASE-AND-DESIST PROCEEDINGS,  
PURSUANT TO SECTION 15(b) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
AND SECTIONS 203(e) AND 203(k) OF THE  
INVESTMENT ADVISERS ACT OF 1940,  
MAKING FINDINGS, AND IMPOSING  
REMEDIAL SANCTIONS AND A CEASE-  
AND-DESIST ORDER**

**I.**

The Securities and Exchange Commission (“Commission”) deems it appropriate and in the public interest that public administrative and cease-and-desist proceedings be, and hereby are, instituted pursuant to Section 15(b) of the Securities Exchange Act of 1934 (“Exchange Act”) and Sections 203(e) and 203(k) of the Investment Advisers Act of 1940 (“Advisers Act”) against Pruco Securities, LLC (“Pruco” or “Respondent”).

**II.**

In anticipation of the institution of these proceedings, Respondent has submitted an Offer of Settlement (the “Offer”) which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission’s jurisdiction over it and the subject matter of these proceedings, which are admitted, Respondent consents to the entry of this Order Instituting Administrative and Cease-and-Desist Proceedings, Pursuant to Section 15(b) of the Securities Exchange Act of 1934 and Sections 203(e) and 203(k) of the Investment Advisers Act of 1940, Making Findings, and Imposing Remedial Sanctions and a Cease-and-Desist Order (“Order”), as set forth below.

### III.

On the basis of this Order and Respondent's Offer, the Commission finds<sup>1</sup> that:

#### Summary

1. These proceedings arise from Pruco's breaches of fiduciary duty to its advisory clients that participated in Pruco's wrap fee programs. In Pruco's wrap fee programs, clients pay an all-inclusive fee for asset management and trade execution. At various times beginning in January 2014, Pruco breached its fiduciary duty to its advisory clients by: (a) failing to conduct stated monitoring of client accounts to determine whether the wrap fee programs continued to be suitable for clients; (b) charging certain fees on some clients contrary to its disclosures; (c) recommending that clients purchase and hold certain mutual funds and mutual fund share classes that paid Pruco fees pursuant to Rule 12b-1 under the Investment Company Act of 1940 ("12b-1") without disclosing the conflict of interest arising therefrom; (d) failing to disclose that it received revenue sharing payments on client investments pursuant to an agreement with its clearing firm ("Clearing Firm"), which also allowed Pruco to avoid paying certain transaction fees for its clients' purchases of mutual funds; (e) recommending bank sweep vehicles for which the Clearing Firm paid Pruco revenue sharing, which Pruco had not disclosed; and (f) violating its duty to seek best execution for certain transactions by selecting or recommending mutual fund share classes when share classes of the same funds were available to the clients that presented a more favorable value or better performance. As a result, Pruco willfully violated Section 206(2) and 206(4) of the Advisers Act and Rule 206(4)-7 thereunder.

#### Respondent

2. Respondent Pruco Securities, LLC ("Pruco") is a New Jersey limited liability company with its principal place of business in Newark, New Jersey. Pruco has been registered with the Commission as an investment adviser since June 1996 and as a broker-dealer since April 1971. In its annual updating amendment to its Form ADV, filed March 30, 2020, Pruco reported more than \$8.7 billion in regulatory assets under management across more than 60,000 advisory accounts.

#### Facts

3. Since at least January 2014, Pruco provided advisory services to its clients exclusively through wrap fee programs (i.e. advisory programs in which clients paid Pruco an asset-based fee for asset management, and Pruco agreed not to charge clients any transaction-based fee, or "ticket charge," for the purchase or sale of securities in client accounts). During this time period, Pruco primarily managed four wrap fee programs: (i) PruChoice, a non-discretionary wrap fee program that focuses on mutual fund investments; (ii) PruStrategist Portfolios ("PSP"), a third-

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<sup>1</sup> The findings herein are made pursuant to Respondent's Offer of Settlement and are not binding on any other person or entity in this or any other proceeding.

party discretionary investment advisory program<sup>2</sup>; (iii) PruUMA, a discretionary “Unified Managed Account” program; and (iv) Managed Assets Consulting Services (“MACS” and collectively, the “Wrap-Fee Programs”), a discretionary wrap fee program focused on various investment strategies that do not include mutual fund investments.

### **Wrap Account Suitability**

4. Since at least January 2014, Pruco stated in its client agreement forms that “[p]rofessional money management is not suitable for all investors. . . [y]our investment objectives, risk tolerance, and liquidity needs must be reviewed before a suitable program can be recommended.” Pruco further stated in its 2014 Form ADV wrap program brochures that its investment adviser representatives (“IARs”) would review their clients’ accounts on an annual basis “at minimum.” Wrap fee programs typically offer advisory clients several investment management services, including trade execution services, in return for one asset-based fee. While offering benefits to many clients, wrap fee programs are not suitable for all clients. Advisory clients with infrequent trading activity, for example, may pay higher fees on a wrap fee program account than they would if they maintained their assets in a traditional brokerage account that only charged transaction-based fees. Beginning in 2015 Pruco stated in its Form ADV wrap program brochures that it employs FINRA Registered Principals to “review program accounts for suitability,” that accounts “are reviewed by the Registered Principals prior to being opened” and that “[a]ccounts are monitored on an ongoing basis by Registered Principals.”

5. Pruco’s practices regarding the monitoring for wrap-fee suitability were inconsistent with its statements to clients. Pruco’s advisory compliance policies and procedures, in effect since at least January 2014, required IAR supervisors to monitor the level of trading activity and the portfolio composition of its advisory clients’ accounts in the Wrap-Fee Programs to determine whether advisory accounts were, as stated in its client agreement forms, “suitable” for clients, both when the account was opened and on an ongoing basis. However, the suitability procedures in effect in 2014 provided no details or parameters to IARs or their supervisors concerning how to assess whether a wrap account was and remained appropriate for clients. In addition, while Pruco required its IARs to conduct annual reviews of their clients’ wrap accounts, the procedures did not require that the IARs’ supervisors review the substance of the annual reviews or the determinations that the IARs made; Pruco’s procedures required only that the supervisors confirm whether an annual review had actually taken place. In October 2014, Pruco’s compliance department informed Pruco management of the above deficiencies and recommended that Pruco’s procedures be enhanced.

6. In April 2015, Pruco implemented a revised supervisory procedure to address the deficiencies in the original procedure. The revised procedure, however, still did not meet Pruco’s stated practice of reviewing wrap accounts to make sure they were “suitable.” In particular, the procedure did not require supervisors to review why accounts were deemed suitable or whether

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<sup>2</sup> Pruco provides investment advisory services under the marketing name Prudential Financial Planning Services (“PFPS”). PFPS and a third-party adviser are co-advisors in the PSP program, and the third-party adviser has discretion over client accounts.

IARs adequately made their determinations that clients were in suitable wrap accounts. The revised procedures also did not require that new clients' historic trading activity be reviewed prior to opening a wrap account. Pruco continued to revise its policies and procedures concerning wrap fee suitability and ongoing monitoring, which it completed in September 2017. Pruco later determined that 1,401 advisory clients held assets in wrap fee accounts from January 2014 to September 2017 when such accounts had little or no trading activity. Pruco received \$1,771,838 in additional management fees as a result of maintaining those clients in wrap fee accounts.

### **Certain Program Fees Calculated Contrary to Pruco's Disclosures**

7. Beginning in June 2014 and continuing until March 2017, Pruco stated in its MACS Form ADV wrap program brochures that the MACS program fee was "based upon the market value of the MACS Assets," which were described as equity, convertible securities, and/or fixed income securities and ETFs. Regarding cash assets, the brochures stated that "[n]o Program Fee is paid on assets held in money market funds used as temporary investment vehicles or 'sweep' arrangements." Contrary to that disclosure, however, from June 2014 through March 2017, Pruco charged 1,475 MACS accounts a total of \$825,898 in advisory fees on these clients' cash holdings.

8. After Pruco discovered its MACS Form ADV disclosures were contrary to its fee calculations, it notified the Commission staff and reimbursed clients for the \$825,898 in advisory fees, plus interest, completing that process in March 2018. In addition, Pruco revised the MACS Form ADV wrap program brochure in March 2017 to state that the program fee is "based upon the market value of the Program Assets, including any cash held in the core account investment vehicle," which holds any cash allocation or cash awaiting investment in the MACS program.

9. Pursuant to statements in client agreements and Forms ADV disclosures for the PruUMA and PSP programs, Pruco excludes Pruco proprietary mutual funds from all program fee calculations for these programs. However, from PSP's inception in June 2016 and PruUMA's inception in October 2017 and continuing for each through March 2019, Pruco's process to exclude proprietary funds failed to exclude one proprietary money market fund. During this period, Pruco charged PSP and PruUMA accounts a total of \$269,495 in fees based on the accounts' holdings of the proprietary mutual fund. During the Commission's investigation, Pruco notified the Commission staff that it had discovered that the fee calculations were contrary to Pruco's disclosures.

### **Undisclosed Conflicts Regarding Mutual Fund Share Classes**

10. Mutual funds typically offer investors different types of shares or "share classes." Each share class represents an interest in the same portfolio of securities with the same investment objective. The primary difference among the share classes is the fee structure.

11. For example, some mutual fund share classes charge 12b-1 fees or other recurring fees to cover certain costs of fund distribution, marketing or shareholder servicing. The recurring fees, which are included in a mutual fund's total annual fund operating expenses, vary by share class, but typically range from 25 to 100 basis points (equal to 0.25% to 1.00%). These fees are

deducted from the mutual fund's assets on an ongoing basis and generally are paid to the broker-dealer that distributes or services the shares. The greater these fees, the greater the mutual fund share class's overall expense ratio.

12. Many mutual funds also offer lower cost share classes that do not charge 12b-1 fees and less or no recurring fees and thus have lower expense ratios than other share classes for the same fund (e.g., "Institutional Class" or "Class I" shares (collectively, "Class I shares")).<sup>3</sup> An investor who holds Class I shares of a mutual fund will usually pay lower total annual fund operating expenses over time – and thus will generally earn higher returns – than one who holds a share class of the same fund that has a higher expense ratio. Therefore, if a mutual fund offers a Class I share, and an investor is eligible to own it, it is often, though not always, better for the investor to purchase or hold the Class I share.

### *Undisclosed Receipt of 12b-1 Fees*

13. From January 2014 through March 2016, Pruco recommended that certain PruChoice clients purchase or hold<sup>4</sup> mutual fund share classes that paid Pruco 12b-1 fees, including in some circumstances when lower-cost share classes of those same funds were available to those clients.

14. As an investment adviser, Pruco was obligated to disclose all material facts to its advisory clients, including any conflicts of interest between itself and/or its associated persons and its clients that could affect the advisory relationship and how those conflicts could affect the advice Pruco provided its clients. To meet this fiduciary obligation, Pruco was required to provide its advisory clients with full and fair disclosure that was sufficiently specific so that they could understand the conflicts of interest concerning Pruco's advice about investing in different classes of mutual funds and could have an informed basis on which they could consent or object to the conflicts.

15. Until June 2014, Pruco made no disclosures to clients concerning its receipt of 12b-1 fees as a result of client investments. In June 2014, Pruco revised its PruChoice Form ADV wrap program brochure to, for the first time, disclose Pruco's receipt of 12b-1 fees and the conflicts of interest related thereto. Pruco, however, failed to identify that new disclosure in the Material Changes section of the June 2014 Form ADV wrap program brochure. Although Pruco stated in its June 2014 Form ADV wrap program brochure that "[i]f we make material changes to the Brochure, there will be a summary, as provided above, that identifies and discusses such changes," Pruco did not identify or discuss the new 12b-1 fee disclosure in the summary of

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<sup>3</sup> Share classes that do not charge 12b-1 fees or otherwise have lower expense ratios than other share classes in a fund also go by a variety of other names in the mutual fund industry. Examples may, though not always, include "Advisor," "Class F2," "Class Y" and "Class Z" shares. As used in this Order, the term "Class I shares" refers generically to share classes that do not charge 12b-1 fees or that have lower expense ratios than other share classes in a fund.

<sup>4</sup> In many cases, mutual funds permit certain advisory clients who hold shares in classes charging 12b-1 fees to convert those shares to Class I shares without cost or tax consequences to the client.

material changes until its March 2016 Form ADV filing. Thus, legacy clients (i.e., those clients who received an initial brochure before the June 2014 Form ADV wrap program brochure and were in 12b-1 fee paying mutual funds, including those with lower-cost share classes), were not on notice of the new conflicts of interest disclosures until March 2016.

16. During the relevant period, Pruco received \$7,175,204 in 12b-1 fees.

#### *Undisclosed Receipt of Revenue Sharing on Mutual Fund Investments*

17. Many mutual fund sponsors pay the Clearing Firm a recurring fee to have some or all of their fund share classes offered as part of the Clearing Firm's mutual fund programs. Since June 2014, the agreement between Pruco and the Clearing Firm provided that the Clearing Firm would share this recurring fee (i.e., mutual fund revenue) with Pruco based on Pruco's client assets invested in certain mutual funds.<sup>5</sup> This agreement is generally referred to as a revenue sharing agreement.

#### *No Transaction Fee Program Revenue Sharing*

18. Beginning in June 2014, the Clearing Firm had a "no transaction fee" ("NTF") program for which the Clearing Firm did not charge a transaction fee for the purchase or sale of mutual funds. The Clearing Firm generally charged a higher recurring fee for a mutual fund to be part of the NTF Program as compared to being sold outside of that program. As a result, mutual fund share classes sold through the NTF Program ("NTF shares") generally had higher expense ratios than mutual fund share classes sold outside that program.

19. Under the agreement between Pruco and the Clearing Firm, the Clearing Firm would share with Pruco a portion of the recurring fee (i.e., revenue) the Clearing Firm received from mutual fund investments that were part of its "no-transaction fee" program ("NTF Program").

#### *Transaction Fee Program Revenue Sharing*

20. Beginning in June 2014, the Clearing Firm also had a "transaction fee" ("TF") program for which the Clearing Firm did charge a transaction fee for the purchase or sale of mutual funds. The mutual fund sponsors generally paid the Clearing Firm a lower recurring fee if they were part of the TF Program as opposed to the NTF Program.

21. Until April 2017, the agreement between Pruco and its Clearing Firm provided that it would pay Pruco a portion of the recurring fee based on the aggregate number of TF Program positions held in clients' accounts each year.

22. The Clearing Firm did not pay any form of revenue sharing for some mutual funds.

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<sup>5</sup> Pruco clients indirectly paid these fees as they were included in the expense ratios of the mutual fund in which they invested.

### *Undisclosed Conflicts of Interest*

23. The payments Pruco received under the agreement created a financial incentive for Pruco to make recommendations that would lead to greater revenue sharing for Pruco.

24. Prior to April 2017, Pruco, however, failed to provide any disclosure that it received revenue sharing payments from clients' mutual fund investments. In April 2017, Pruco amended its PruChoice Form ADV wrap program brochure to, for the first time, disclose that it received compensation for certain client mutual fund investments, stating the following:

[The Clearing Firm] makes available to PFPS certain funds that do not charge Pruco a transaction fee for fund transactions effected in Program Accounts. Furthermore, [the Clearing Firm] shares a portion of the compensation that it receives from such fund companies with PFPS, where such compensation (for those that do not charge a transaction fee) is calculated based on total assets invested in such funds through PFPS sponsored wrap fee programs and (for those that do charge a transaction fee) the number of fund shares held under PFPS sponsored wrap fee programs. Thus, PFPS has an incentive to include those funds on the [Clearing Firm] platform that participate in such [Clearing Firm] programs as Program Funds for your consideration.

25. This disclosure did not fully and fairly disclose the conflict of interest. For example, among other things, the disclosure did not explain that mutual fund share classes available in the NTF Program were generally more expensive than share classes of the same funds that were otherwise available to clients.

26. During the relevant period, Pruco received \$4,362,562 in revenue sharing payments under the terms of the contract as a result of the mutual funds purchased or owned by clients

### *Undisclosed Conflicts of Interest to Avoid Paying Transaction Fees*

27. The agreement between Pruco and its clients provided that in exchange for paying the advisory fee Pruco would be responsible for paying transaction fees for these wrap accounts. Pruco also financially benefitted when selecting NTF Program funds and share classes by avoiding certain transaction costs. Specifically, certain mutual fund transactions in Pruco client accounts incurred clearance, or "ticket," charges imposed by the Clearing Firm to execute Pruco's client transactions. Pursuant to client agreements, Pruco paid any required ticket charges for client transactions. Pruco's Clearing Firm did not impose ticket charges for NTF Program mutual fund transactions, but did impose such charges on other mutual fund transactions. Therefore, Pruco's selection of NTF Program shares, which generally were more expensive for Pruco's clients, provided Pruco with certain financial benefits that conflicted with the interests of its clients.

28. Pruco failed to disclose the financial benefits it received from selecting mutual funds and mutual fund share classes from the NTF Program or its conflicts of interests related thereto.

## **Undisclosed Conflicts Regarding Bank Sweep Vehicles**

29. Many clearing firms offer advisers revenue sharing payments if the adviser's clients hold their uninvested cash balances in certain accounts known as sweep accounts. A sweep account is a money market mutual fund or bank account used by broker-dealers to hold cash (e.g., incoming cash deposits, dividends, or certain investment returns) until the investor or its adviser decides how to invest the money. With regard to bank sweep accounts, the revenue sharing payments typically are generated from a portion of the interest on the uninvested cash in the clients' accounts with the clients receiving the remaining interest. During the relevant period, Pruco received \$46,247 of revenue sharing payments from its Clearing Firm for client assets held in bank sweep accounts (the "Bank Sweep Program"). The revenue sharing payments Pruco received from the Bank Sweep Program created a conflict of interest because Pruco had an incentive to recommend that clients hold uninvested cash in the Bank Sweep Program versus other cash sweep vehicles that did not provide for revenue sharing payments.

30. In its March 2016 Form ADV wrap program brochures, Pruco stated that clients with assets subject to the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), and Individual Retirement Accounts ("IRAs") will not be able to select the Bank Sweep Program for their uninvested cash. Pruco notified the Commission Staff that, despite this disclosure, 19,731 ERISA accounts and IRAs from March 2016 through January 2019 held assets in the Bank Sweep Program. Pruco received \$172,041.66 of revenue sharing payments from the Clearing Firm for these clients' assets held in the Bank Sweep Program.

### **Best Execution Failures**

31. An investment adviser's fiduciary duty includes, among other things, an obligation to seek best execution for client transactions.<sup>6</sup>

32. Pruco caused certain advisory clients to invest in certain mutual funds that charged higher expenses when share classes of the same funds were available to the clients that presented a more favorable value under the particular circumstances at the time of the transactions. As a result, Pruco violated its duty to seek best execution for those transactions.

### **Compliance Deficiencies**

33. During the Relevant Period, Pruco failed to adopt and implement written policies and procedures reasonably designed to prevent violations of the Advisers Act and the rules thereunder in connection with its wrap account suitability review, fee calculations, mutual fund share class and sweep account selection practices, the accuracy of its disclosures related to those practices, and the disclosure of revenue sharing and the resulting conflicts of interest.

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<sup>6</sup> See, e.g., Interpretive Release Concerning the Scope of Section 28(e) of the Securities Exchange Act of 1934 and Related Matters, Exchange Act Rel. No. 23170 (Apr. 28, 1986).

## **Client Reimbursement**

34. Pruco asserted to the staff that after the Commission's investigation began, it reimbursed affected investors for the fees Pruco charged pursuant to the conduct described in Paragraphs 4 through 9 above and the revenue sharing Pruco received pursuant to the conduct described in Paragraph 30 above.

### **Violations**

35. As a result of the conduct described above, Respondent willfully<sup>7</sup> violated Section 206(2) of the Advisers Act, which makes it unlawful for any investment adviser, directly or indirectly, to "engage in any transaction, practice or course of business which operates as a fraud or deceit upon any client or prospective client."

36. As a result of the conduct described above, Respondent willfully violated Section 206(4) of the Advisers Act and Rule 206(4)-7 thereunder, which require a registered investment adviser to adopt and implement written compliance policies and procedures reasonably designed to prevent violations of the Advisers Act and the rules thereunder.

### **Undertakings**

Pruco has undertaken to:

37. Within 30 days of the entry of this Order, review and correct as necessary all relevant disclosure documents concerning monitoring of client accounts, fee calculation, mutual fund share class selection, Revenue Sharing, transaction fees, and 12b-1 fees.

38. Within 30 days of the entry of this Order, evaluate whether existing clients should be moved to a lower-cost or lower-revenue-sharing-paying share class and move clients as necessary.

39. Within 30 days of the entry of this Order, evaluate, update (if necessary), and review for the effectiveness of their implementation, Pruco's policies and procedures so that they are reasonably designed to prevent violations of the Advisers Act in connection with disclosures regarding mutual fund share class selection, Revenue Sharing, and transaction fees in wrap accounts.

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<sup>7</sup> "Willfully," for purposes of imposing relief under Section 15(b) of the Exchange Act and Section 203(e) of the Advisers Act, "means no more than that the person charged with the duty knows what he is doing." *Wonsover v. SEC*, 205 F.3d 408, 414 (D.C. Cir. 2000) (quoting *Hughes v. SEC*, 174 F.2d 969, 977 (D.C. Cir. 1949)). There is no requirement that the actor "also be aware that he is violating one of the Rules or Acts." *Tager v. SEC*, 344 F.2d 5, 8 (2d Cir. 1965). The decision in *The Robare Group, Ltd. v. SEC*, which construed the term "willfully" for purposes of a differently structured statutory provision, does not alter that standard. 922 F.3d 468, 478-79 (D.C. Cir. 2019) (setting forth the showing required to establish that a person has "willfully omit[ed]" material information from a required disclosure in violation of Section 207 of the Advisers Act).

40. Within 30 days of the entry of this Order, notify affected investors (i.e., those former and current clients who were financially harmed by the practices discussed above (hereinafter, “affected investors”)) of the settlement terms of this Order by sending a copy of this Order to each affected investor via mail, email, or such other method not unacceptable to the Commission staff, together with a cover letter in a form not unacceptable to the Commission staff.

41. Within 45 days of the entry of this Order, certify, in writing, compliance with the undertakings set forth above. The certification shall identify the undertaking, provide written evidence of compliance in the form of a narrative, and be supported by exhibits sufficient to demonstrate compliance. The Commission staff may make reasonable requests for further evidence of compliance, and Respondent agrees to provide such evidence. The certification and supporting material shall be submitted to Corey A. Schuster, Assistant Director, Asset Management Unit, Securities and Exchange Commission, 100 F Street, Washington, DC, 20549, or such other address as the Commission staff may provide, with a copy to the Office of Chief Counsel of the Enforcement Division, 100 F Street, NE Washington, DC 20549.

42. For good cause shown, the Commission staff may extend any of the procedural dates relating to the undertakings. Deadlines for procedural dates shall be counted in calendar days, except that if the last day falls on a weekend or federal holiday, the next business day shall be considered the last day.

#### **Pruco’s Remedial Efforts**

43. In determining to accept the Offer, the Commission considered other remedial acts undertaken by Pruco and cooperation afforded the Commission staff.

#### **IV.**

In view of the foregoing, the Commission deems it appropriate, and in the public interest to impose the sanctions agreed to in Respondent’s Offer.

Accordingly, pursuant to Section 15(b) of the Exchange Act and Sections 203(e) and 203(k) of the Advisers Act, it is hereby ORDERED that:

A. Respondent cease and desist from committing or causing any violations and any future violations of Sections 206(2) and 206(4) of the Advisers Act and Rule 206(4)-7 promulgated thereunder.

B. Respondent is censured.

C. Respondent shall pay disgorgement, prejudgment interest, and a civil penalty, totaling \$18,252,341, to compensate advisory clients that were affected by the conduct detailed in paragraphs 10 through 28 of this order (the “Affected Clients”), as follows:

(i) Respondent shall pay disgorgement of \$12,690,585 and prejudgment interest of \$3,061,786, consistent with the provisions of this Subsection C.

(ii) Respondent shall pay a civil money penalty in the amount of \$2,500,000, consistent with the provisions of this Subsection C.

(iii) Within ten (10) days of the entry of this Order, Respondent shall deposit the full amount of the disgorgement, prejudgment interest, and civil penalty (the “Fair Fund”), less monies already distributed to Affected Clients, into an escrow account at a financial institution not unacceptable to the Commission staff and Respondent shall provide evidence of such deposit in a form acceptable to the Commission staff. If timely deposit is not made, additional interest shall accrue pursuant to SEC Rule of Practice 600 [17 C.F.R. § 201.600] and/or 31 U.S.C. § 3717.

(iv) Pursuant to Section 308(a) of the Sarbanes-Oxley Act of 2002, as amended, a Fair Fund is created for the penalties, disgorgement, and prejudgment interest referenced in this Subsection C. Amounts ordered to be paid as civil money penalties pursuant to this Order shall be treated as penalties paid to the government for all purposes, including all tax purposes. To preserve the deterrent effect of the civil penalty, Respondent agrees that in any Related Investor Action, it shall not argue that it is entitled to, nor shall it benefit by, offset or reduction of any award of compensatory damages by the amount of any part of Respondent’s payment of a civil penalty in this action (“Penalty Offset”). If the court in any Related Investor Action grants such a Penalty Offset, Respondent agrees that it shall, within 30 days after entry of a final order granting the Penalty Offset, notify the Commission’s counsel in this action and pay the amount of the Penalty Offset to the Securities and Exchange Commission. Such a payment shall not be deemed an additional civil penalty and shall not be deemed to change the amount of the civil penalty imposed in this proceeding. For purposes of this paragraph, a “Related Investor Action” means a private damages action brought against Respondent by or on behalf of one or more investors based on substantially the same facts as alleged in the Order instituted by the Commission in this proceeding.

(v) Respondent shall be responsible for administering the Fair Fund and may hire a professional not unacceptable to the staff of the Commission, at its own cost, to assist it in the administration of the distribution. The costs and expenses of administering the Fair Fund, including any such professional services, shall be borne by Respondent and shall not be paid out of the Fair Fund.

(vi) Respondent shall distribute from the Fair Fund to each Affected Client an amount representing: (a) the 12b-1 fees attributable to the Affected Client during the period from January 2014 through March 2016; (b) revenue sharing payments attributable to the Affected Client during the period from June 2014 through March 2019; (c) Respondent’s financial benefit arising from its selection of NTF share classes attributable to the Affected Client from June 2014 through April 2017; and (d) reasonable interest paid on such fees and payments, less any monies already distributed, pursuant to a disbursement calculation (the “Calculation”) that will be submitted to, reviewed, and approved by the Commission staff in accordance with

this Subsection C. The Calculation shall be subject to a *de minimis* threshold. No portion of the Fair Fund shall be paid to any Affected Investor account in which Respondent or its past or present officers or directors have a financial interest.

(vii) Respondent shall, within ninety (90) days of the entry of this Order, submit the Calculation to the Commission staff for review and approval. At or around the time of submission of the proposed Calculation to the staff, Respondent shall, and shall require that any third-parties or professionals retained by Respondent to assist in formulating the methodology for its Calculation and/or administration of the Distribution, make themselves available for a conference call with the Commission staff to explain the methodology used in preparing the proposed Calculation and its implementation, and to provide the staff with an opportunity to ask questions. Respondent also shall provide to the Commission staff such additional information and supporting documentation, including but not limited to proof of any payments already made to Affected Clients, as the Commission staff may request for the purpose of its review. In the event of one or more objections by the Commission staff to the proposed Calculation or any of its information or supporting documentation, Respondent shall submit a revised Calculation for the review and approval of the Commission staff or additional information or supporting documentation within ten (10) days of the date that the Commission staff notifies Respondent of the objection. The revised Calculation shall be subject to all of the provisions of Subsection C.

(viii) Respondent shall, within thirty (30) days of the written approval of the Calculation by the Commission staff, submit a payment file (the "Payment File") for review and acceptance by the Commission staff demonstrating the application of the methodology to each affected investor. The Payment File should identify, at a minimum: (1) the name of each affected investor, (2) the exact amount of the payment to be made from the Fair Fund to each affected investor, and (3) the application of a *de minimis* threshold.

(ix) Respondent shall disburse all amounts payable to affected investors within ninety (90) days of the date the Commission staff accepts the Payment File unless such time period is extended as provided in Paragraph (xiii) of this Subsection C. If, after reasonable efforts to distribute the Fair Fund pursuant to the approved Payment File, Respondent is unable to distribute any portion of the Fair Fund for good cause, including factors beyond Respondent's control, Respondent shall transfer any such undistributed funds to the Commission for transmittal to the United States Treasury in accordance with Section 21F(g)(3) of the Securities Exchange Act of 1934 when the distribution of the funds is complete and before the final accounting provided for in Paragraph (xi) below is submitted to the Commission staff. Any such payment shall be made in accordance with Paragraph (xv) below.

(x) A Fair Fund is a Qualified Settlement Fund (“QSF”) under Section 468B(g) of the Internal Revenue Code (“IRC”), 26 U.S.C. §§ 1.468B.1-1.468B.5.

Respondent agrees to be responsible for all tax compliance responsibilities associated with distribution of the Fair Fund, including but not limited to tax obligations resulting from the Fair Fund’s status as a QSF and the Foreign Account Tax Compliance Act (“FATCA”), and may retain any professional services necessary. The costs and expenses of any such professional services shall be borne by Respondent and shall not be paid by the Fair Fund.

(xi) Within one hundred fifty (150) days after Respondent completes the distribution of all amounts payable to the affected investors, Respondent shall return all undisbursed funds to the Commission pursuant to the instruction set forth in Paragraph (ix) of this Subsection C. Respondent shall then submit to the Commission staff a final accounting and certification of the disposition of the Fair Fund for Commission approval. The final accounting shall be in a format to be provided by the Commission staff. The final accounting and certification shall include, but not be limited to: (1) the amount paid to each affected investor, with reasonable interest; (2) the date of each payment; (3) the check number or other identifier of money transferred or credited to each affected investor; (4) the amount of any returned payment and the date received; (5) a description of any effort to locate an affected investor whose payment was returned or to whom payment was not made for any reason; (6) the total amount, if any, to be forwarded to the Commission for transfer to the United States Treasury; and (7) an affirmation that Respondent has made payments from the Fair Fund to affected investors in accordance with the Payment File approved by the Commission staff. Respondent shall submit the final accounting and certification, together with proof and supporting documentation of such payment in a form acceptable to Commission staff, under a cover letter that identifies Pruco Securities, LLC as the Respondent in these proceedings and the file number of these proceedings to Corey A. Schuster, Assistant Director, Asset Management Unit, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549, or such other address as the Commission staff may provide. Any and all supporting documentation for the accounting and certification shall be provided to the Commission staff upon request, and Respondent shall cooperate with any additional requests by the Commission staff in connection with the accounting and certification.

(xii) After Respondent has submitted the final accounting to the Commission staff, the staff shall submit the final accounting to the Commission for approval and shall request Commission approval to send any undistributed amount to the United States Treasury.

(xiii) The Commission staff may extend any of the procedural dates set forth in Paragraphs (iii) through (xi) of this Subsection C for good cause shown. Deadlines for dates relating to the Fair Fund shall be counted in calendar days, except if the

last day falls on a weekend or federal holiday, the next business day shall be considered the last day.

(xiv) Respondent's transfer of any undistributed funds to the Commission for transmittal to the United States Treasury must be made in one of the following ways:

(a) Respondent may transmit payment electronically to the Commission, which will provide detailed ACH transfer/Fedwire instructions upon request;

(b) Respondent may make direct payment from a bank account via Pay.gov through the SEC website at <http://www.sec.gov/about/offices/ofm.htm>; or

(c) Respondent may pay by certified check, bank cashier's check, or United States postal money order, made payable to the Securities and Exchange Commission and hand-delivered or mailed to:

Enterprise Services Center  
Accounts Receivable Branch  
HQ Bldg., Room 181, AMZ-341  
6500 South MacArthur Boulevard  
Oklahoma City, OK 73169

Payments by check or money order must be accompanied by a cover letter identifying Respondent as a Respondent in these proceedings, and the file number of these proceedings; a copy of the cover letter and check or money order must be sent to Corey A. Schuster, Assistant Director, Asset Management Unit, Securities and Exchange Commission, 100 F. Street, NE, Washington, DC 20549, or such other address as the Commission staff may provide.

D. Respondent shall comply with the undertakings enumerated in Section III, paragraphs 37 through 41, above.

By the Commission.

Vanessa A. Countryman  
Secretary