

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2013035279601**

TO: Department of Enforcement
Financial Industry Regulatory Authority ("FINRA")

RE: Princor Financial Services Corporation, Respondent
Member Firm
CRD No. 1137

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Respondent Princor Financial Services Corporation ("Princor" or the "Firm") submits this Letter of Acceptance, Waiver and Consent ("AWC") for the purpose of proposing a settlement of the alleged rule violations described below. This AWC is submitted on the condition that, if accepted, FINRA will not bring any future actions against Princor alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. Princor hereby accepts and consents, without admitting or denying the findings, and solely for the purposes of this proceeding and any other proceeding brought by or on behalf of FINRA, or to which FINRA is a party, prior to a hearing and without an adjudication of any issue of law or fact, to the entry of the following findings by FINRA:

BACKGROUND

Princor has been a FINRA broker-dealer since July 22, 1968. The Firm conducts a general securities business from its main office, located in Des Moines, Iowa. Princor is an insurance-affiliated broker dealer, and, between October 2011 and June 2013, had a total of approximately 1,400 field representatives, and 2,800 registered persons, including home office and customer service employees.

RELEVANT DISCIPLINARY HISTORY

On August 6, 2012, Princor entered into an AWC with FINRA in which it agreed, without admitting or denying the findings, to a censure and a fine of \$7,500. The AWC charged the Firm with failing to establish and maintain a supervisory system reasonably designed to monitor the emails of field representatives, in violation of NASD Rule 3010(a) and FINRA Rule 2010.

OVERVIEW

From October 1, 2011 to June 10, 2013 (the “Relevant Period”), Prncor failed to timely review approximately 2.7 million incoming email communications for approximately 2,100 email accounts due to a coding error in Prncor’s email monitoring system. In addition, the Firm failed to adequately monitor and test its technology infrastructure to determine that emails were properly routed to Prncor’s email monitoring system. As such, Prncor violated NASD Rule 3010 and FINRA Rule 2010.

FACTS AND VIOLATIVE CONDUCT

NASD Rule 3010(a) states that “each member shall establish and maintain a system to supervise the activities of each registered representative, registered principal, and other associated person that is reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable NASD Rules.”

NASD Rule 3010(d)(2) specifically provides for the review of email correspondence related to the member’s securities business: “Each member shall develop written procedures that are appropriate to its business, size, structure, and customers for the review of incoming and outgoing written and electronic correspondence with the public relating to its investment banking or securities business....”

In April 2013, Prncor discovered a disparity between the number of emails stored in its email retention system and the number of emails diverted to the Firm’s email review system. In its investigation, Prncor discovered incoming emails for approximately 2,100 accounts with vanity domains (email addresses other than principal.com) were diverted to Prncor’s email retention system without first being run through Prncor’s email system for supervisory review because of a custom coding problem in the email review system.¹ As a result, during the Relevant Period, Prncor failed to timely review approximately 2.7 million incoming email communications sent to 2,100 email accounts.²

In addition, during the Relevant Period, the Firm failed to conduct adequate monitoring of its technology infrastructure to determine if vanity email domains were experiencing disruptions that would result in the failure to review email

¹ Prncor registered representatives typically have multiple email addresses with different domain names based on the types of business they conduct.

² Prncor reviewed the 2.7 million emails affected by the coding error between August 2013 and April 2014.

correspondence in those accounts.³

As a result of the foregoing conduct, Princor violated NASD Rule 3010, and FINRA Rule 2010.

B. Princor also consents to the imposition of the following sanctions:

1. A censure
2. A fine of \$115,000.

Princor agrees to pay the monetary sanction upon notice that this AWC has been accepted and that such payment is due and payable. Princor has submitted an Election of Payment form showing the method by which it proposes to pay the fine imposed.

Princor specifically and voluntarily waives any right to claim that it is unable to pay. now or at any time hereafter, the monetary sanction imposed in this matter. The sanctions imposed herein shall be effective on a date set by FINRA staff.

II.

WAIVER OF PROCEDURAL RIGHTS

Princor specifically and voluntarily waives the following rights granted under FINRA's Code of Procedure:

- A. To have a Complaint issued specifying the allegations against Princor;
- B. To be notified of the Complaint and have the opportunity to answer the allegations in writing;
- C. To defend against the allegations in a disciplinary hearing before a hearing panel, to have a written record of the hearing made and to have a written decision issued; and
- D. To appeal any such decision to the National Adjudicatory Council ("NAC") and then to the U.S. Securities and Exchange Commission and a U.S. Court of Appeals.

Further, Princor specifically and voluntarily waives any right to claim bias or prejudgment of the Chief Legal Officer, the NAC, or any member of the NAC, in connection with such person's or body's participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including acceptance or rejection of this AWC.

³ Princor's emails were retained on a separate system; therefore, Princor retained all email correspondence related to its business as a broker-dealer during the Relevant Period.

Princor further specifically and voluntarily waives any right to claim that a person violated the ex parte prohibitions of FINRA Rule 9143 or the separation of functions prohibitions of FINRA Rule 9144, in connection with such person's or body's participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including its acceptance or rejection.

III.

OTHER MATTERS

Princor understands that:

- A. Submission of this AWC is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by the NAC, a Review Subcommittee of the NAC, or the Office of Disciplinary Affairs ("ODA"), pursuant to FINRA Rule 9216;**
- B. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against Princor; and**
- C. If accepted:**
 - 1. this AWC will become part of Princor's permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against Princor;**
 - 2. this AWC will be made available through FINRA's public disclosure program in accordance with FINRA Rule 8313;**
 - 3. FINRA may make a public announcement concerning this agreement and the subject matter thereof in accordance with FINRA Rule 8313; and**
 - 4. Princor may not take any action or make or permit to be made any public statement, including in regulatory filings or otherwise, denying, directly or indirectly, any finding in this AWC or create the impression that the AWC is without factual basis. Princor may not take any position in any proceeding brought by or on behalf of FINRA, or to which FINRA is a party, that is inconsistent with any part of this AWC. Nothing in this provision affects Princor's: (i) testimonial obligations; or (ii) right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party.**
- D. Princor may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. Princor understands that it may not deny the charges or make any statement that is**

inconsistent with the AWC in this Statement. This Statement does not constitute factual or legal findings by FINRA, nor does it reflect the views of FINRA or its staff.

The undersigned, on behalf of the Firm, certifies that a person duly authorized to act on its behalf has read and understands all of the provisions of this AWC and has been given a full opportunity to ask questions about it; that Princor has agreed to its provisions voluntarily; and that no offer, threat, inducement, or promise of any kind, other than the terms set forth herein and the prospect of avoiding the issuance of a Complaint, has been made to induce the Firm to submit it.

Respondent Princor Financial Services Corporation

10-27-2015
Date (mm/dd/yyyy)

By: Traci Weldon
Traci Weldon
Senior Vice President

Accepted by FINRA:

12/02/15
Date

Signed on behalf of the
Director of ODA, by delegated authority

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