

**Prudential Investment
Management Services LLC**
Statement of Financial Condition
December 31, 2016

SEC. I.D. No. 8-36540

This report is deemed Public in accordance with Rule 17a-5(e) (3) under the Securities Exchange Act of 1934.

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Report of Independent Registered Public Accounting Firm

To the Management of Prudential Investment Management Services LLC:

In our opinion, the accompanying statement of financial condition presents fairly, in all material respects, the financial position of Prudential Investment Management Services LLC (the "Company") at December 31, 2016 in conformity with accounting principles generally accepted in the United States of America. This statement of financial condition is the responsibility of the Company's management. Our responsibility is to express an opinion on the statement of financial condition based on our audit. We conducted our audit of this statement of financial condition 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 statement of financial condition is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement of financial condition, assessing the accounting principles used and significant estimates made by management, and evaluating the overall statement of financial condition presentation. We believe that our audit of the statement of financial condition provides a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

February 22, 2017

Prudential Investment Management Services LLC
Statement of Financial Condition
December 31, 2016

(dollars in thousands)

Assets

Cash and cash equivalents	\$	34,756
Cash segregated under federal regulations		23,774
Distribution and service fees receivable		17,806
Receivable from broker-dealers and clearing organizations		3,443
Receivable from affiliates		8,572
Prepaid expenses and other assets		11,400
Total assets	\$	<u>99,751</u>

Liabilities and Member's Equity

Liabilities

Payable to broker-dealers and clearing organizations	\$	10,609
Payable to affiliates and other accrued liabilities		14,174
Payable to customers		11,189
Federal and state income taxes payable to Parent		3,165
Federal and state deferred tax liabilities		2,620
Total liabilities	\$	<u>41,757</u>

Commitments and contingent liabilities (see Note 7)

Member's Equity

Contributed capital	\$	32,796
Undistributed earnings		25,198
Total member's equity		<u>57,994</u>
Total liabilities and member's equity	\$	<u>99,751</u>

The accompanying notes are an integral part of this Statement of Financial Condition.

Prudential Investment Management Services LLC

Notes to Statement of Financial Condition

December 31, 2016

(dollars in thousands)

1. Organization and Nature of Business

Prudential Investment Management Services LLC ("PIMS" or the "Company") is a wholly-owned subsidiary of PIFM Holdco LLC, ("PHI"), which is an indirect wholly-owned subsidiary of Prudential Financial, Inc. ("Prudential"). The Company is a registered broker-dealer subject to the rules and regulations of the Securities and Exchange Commission ("SEC") and is a member of the Financial Industry Regulatory Authority, Inc. ("FINRA").

The Company's primary business is the distribution of mutual funds to retail investors through third party financial intermediary firms. The Company also sells various other investment products to institutional investors including private placements and variable life contracts, and distributes participant-directed group variable annuities and mutual funds to retirement plans.

The Company is also engaged in limited retail selling activities through the offering of various investment products sponsored by third parties and affiliates for rollover distributions from benefit plans of clients of Prudential. The Company offers general brokerage services to retail investors. Investment products offered to customers include, but are not limited to, stocks, bonds, mutual funds and options. With respect to custody and clearing of these customer securities transactions, except for mutual fund transactions in the Smart Solutions IRA product, the Company introduces these transactions to National Financial Services LLC, who clears them on a fully disclosed basis.

The Company is the distributor of the Prudential Investments domestic family of mutual funds shares ("Pru Funds"), which have adopted Plans of Distribution pursuant to Rule 12b-1 under the Investment Company Act of 1940.

The Company has also entered into selling agreements with unaffiliated mutual fund families whereby the Company receives distribution and service fees and commissions for sales of mutual fund products to defined contribution retirement plan clients of Prudential ("DC Plans"). The Company acts as the clearing broker for all mutual fund trades for both proprietary and non-proprietary mutual fund families with respect to the DC Plans business.

As more fully described in Note 5 the Company has various agreements with Prudential affiliates relating to the services of officers and the use of telecommunications, office space, systems, and equipment. As a result, the agreement terms may not be the same as those that would result from agreements with unrelated parties.

Prudential Investment Management Services LLC

Notes to Statement of Financial Condition

December 31, 2016

(dollars in thousands)

2. Summary of Significant Accounting Policies

The audited Statement of Financial Condition has been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

The preparation of the Statement of Financial Condition in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Statement of Financial Condition. Actual results could differ from those estimates.

The Company defines cash and cash equivalents as amounts due from banks and from money market mutual funds. Cash and cash equivalents of \$34,756 includes \$20,672 which represents an investment in non-proprietary money market mutual funds. The remaining \$14,084 represents amounts on deposit in corporate accounts at commercial banks. At times, cash on deposit in the commercial banks may be in excess of available Federal insurance coverage. Cash of \$23,774 has been segregated in a special reserve bank account for the exclusive benefit of customers under SEA Rule 15c3-3 and is classified as Cash segregated under federal regulations.

The Company has an agreement with its parent, PHI, to finance its expected future monthly cash receipts from distribution and Contingent deferred sales charges ("CDSC") fees in exchange for cash. Financing under this agreement is on a sole recourse basis, with the Company required to repay PHI if the Company receives the distribution and CDSC fees. At December 31, 2016, the Company recorded expected future cash receipts and the related financing provided of \$9,602 for Class B and C funds. The Company ceased sale of Class B shares of Pru funds in June 2015.

The Company is a branch of its parent PHI and is included in certain unitary state and local income tax returns.

Deferred income taxes are recognized, based on enacted rates, when assets and liabilities have different values for financial statement and tax reporting purposes.

The application of U.S. GAAP requires the Company to evaluate the recoverability of the Company's deferred tax assets and establish a valuation allowance, if necessary, to reduce the Company's deferred tax assets to an amount that is more-likely-than-not to be realized. Considerable judgment is required in determining whether a valuation allowance is necessary, and if so, the amount of such valuation allowance. Although realization is not assured, management believes it is more-likely-than-not that the deferred tax assets, net of valuation allowances, will be realized.

ASC 740 requires the Company to account for unrecognized tax benefits, interest and penalties which relate to tax years still subject to review by the Internal Revenue Service ("IRS") or other taxing jurisdictions. Audit periods remain open for review until the statute of limitations has passed. Generally, for tax years which produce net operating losses, capital losses or tax credit carryforwards ("tax attributes"), the statute of limitations does not close, to the extent of these tax attributes, until the expiration of the statute of limitations for the tax year in which they are fully utilized. The completion of review or the expiration of the statute of limitations for a given audit period could result in an adjustment to the liability for income taxes.

See Note 4 for additional information regarding income taxes.

Prudential Investment Management Services LLC
Notes to Statement of Financial Condition
December 31, 2016

(dollars in thousands)

3. Fair Value Assets and Liabilities

Fair Value Measurement—Fair value represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The authoritative fair value guidance establishes a framework for measuring fair value that includes a hierarchy used to classify the inputs used in measuring fair value. The level in the fair value hierarchy within which the fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement. The levels of the fair value hierarchy are as follows:

Level 1—Fair value is based on unadjusted quoted prices in active markets that are accessible to the Company for identical assets or liabilities. The Company's Level 1 assets represent an investment in a Prudential sponsored money market mutual fund for which the Company is the exclusive distributor.

Level 2—Fair value is based on significant inputs, other than quoted prices included in Level 1, that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability through corroboration with observable market data. Level 2 inputs include quoted market prices in active markets for similar assets and liabilities, quoted market prices in markets that are not active for identical or similar assets and liabilities, and other market observable inputs.

Level 3—Fair value is based on at least one or more significant unobservable inputs for the asset or liability. The assets and liabilities in this category may require significant judgment or estimation in determining the fair value. The Company does not have any level 3 assets or liabilities.

The table below presents the balances of assets measured at fair value on a recurring basis. There were no liabilities carried at fair value.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets:				
Cash equivalents (money market mutual fund)	\$ 20,672	\$ -	\$ -	\$ 20,672

Prudential Investment Management Services LLC
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(dollars in thousands)

The table below presents the carrying amount and fair value by hierarchy level of certain financial instruments that are not reported at fair value. However, as described below, the carrying amount equals or approximates fair value. The Company did not have any transfers between the levels during the year ended December 31, 2016.

	Fair Value				Carrying
	Level 1	Level 2	Level 3	Total	Amount
					Total
Assets:					
Cash	\$ 14,084	\$ -	\$ -	\$ 14,084	\$ 14,084
Cash segregated under federal regulations	23,774	-	-	23,774	23,774
Distribution and service fees receivable	-	17,806	-	17,806	17,806
Receivable from broker-dealers and clearing organizations	-	3,443	-	3,443	3,443
Receivable from affiliates	-	8,572	-	8,572	8,572
Total assets	\$ 37,858	\$ 29,821	\$ -	\$ 67,679	\$ 67,679
Liabilities:					
Payable to broker-dealers and clearing organizations	\$ -	\$ 10,609	\$ -	\$ 10,609	\$ 10,609
Payable to affiliates and other accrued liabilities	-	14,174	-	14,174	14,174
Payable to customers	-	11,189	-	11,189	11,189
Total liabilities	\$ -	\$ 35,972	\$ -	\$ 35,972	\$ 35,972

The Company believes that due to the short-term nature of the assets listed above, the carrying value approximate fair value. The Company also believes that due to the expected settlement of the liabilities in the near future, carrying values approximate fair value.

4. Income Taxes

Deferred tax assets (liabilities) at December 31, 2016 resulted from the items listed below:

Deferred commission costs	\$ (2,620)
Net deferred tax liabilities	<u>\$ (2,620)</u>

The application of U.S. GAAP requires the Company to evaluate the recoverability of deferred tax assets and establish a valuation allowance if necessary to reduce the deferred tax asset to an amount that is more likely than not expected to be realized. As of December 31, 2016, the company does not require a valuation allowance for its deferred tax assets.

U.S. GAAP prescribes a comprehensive model for how a company should recognize, measure, present, and disclose in its Statement of Financial Condition uncertain tax positions that a company has taken or expects to take on its tax returns. The Company does not have any unrecognized tax benefits at December 31, 2016.

The Company files a consolidated Federal income tax return with its parent. The tax years that remain subject to examination by the Internal Revenue Service at December 31, 2016 are 2009 through 2016.

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(dollars in thousands)

The Company is participating in the IRS's Compliance Assurance Program ("CAP"). Under CAP, the IRS assigns an examination team to review completed transactions as they occur in order to reach agreement with the Company on how they should be reported in the relevant tax returns. If disagreements arise, accelerated resolutions programs are available to resolve the disagreements in a timely manner before the tax return is filed.

5. Related Party Transactions

The Company is the clearing broker for the Prudential retirement plan platform DC Plans' mutual fund trades.

The Company has an agreement with PHI to finance its expected monthly cash receipts related to certain distribution and CDSC fees. The amount payable to PHI under this agreement, at December 31, 2016 was \$9,602 and is included in Payable to affiliates and other accrued liabilities. See Note 2 for further details.

The Company receives various services from Prudential companies including services of officers and the use of telecommunications, office space, systems and equipment.

All services received from and provided to related parties are subject to written agreements. It is noted that balances included below may not agree to the face of the Statement of Financial Condition as these amounts are settled through our affiliated entities although the Company may be contractually liable to a third party.

At December 31, 2016 and for the year then ended, the Company had the following Statement of Financial Condition related party balances:

Statement of Financial Condition	Receivables	Payables
Distribution and service fees	\$ 13,090	\$ -
Payable to broker-dealers and clearing organizations	-	5,855
Payable to customers	-	11,189
Receivable from/payable to affiliates	8,572	13,105
Other assets/liabilities	-	375
Federal and state income taxes payable to Parent	-	3,165
Federal and state deferred tax liabilities	-	2,620
	<u>\$ 21,662</u>	<u>\$ 36,309</u>

6. Line of Credit

The Company has a \$250,000 open-ended line of credit with an affiliate, Prudential Funding, LLC. Borrowings under the line of credit will bear interest at the prevailing Commercial Paper rate at the time of the advance plus 15.5 basis points. The Company had no borrowings during 2016 and as of December 31, 2016, there were no amounts outstanding under the line of credit.

Prudential Investment Management Services LLC
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(dollars in thousands)

7. Commitments and Contingent Liabilities

The Company is subject to legal and regulatory actions in the ordinary course of its business. Management of the Company, after consultation with its legal counsel, believes that the ultimate resolution of any pending litigation and regulatory matters should not have any material adverse effect on the Company's financial condition, results of operations or cash flows.

On an ongoing basis, the Company's internal supervisory and control functions review the quality of sales and other customer interface procedures and practices and may recommend modifications or enhancements. In certain cases, if appropriate, the Company may offer customers remediation and may incur charges, including the cost of such remediation, administrative costs and regulatory fines.

8. Regulatory Requirements

The Company is subject to the Net Capital Rule 15c3-1 of the Securities Exchange Act of 1934. The Company uses the alternative method of computing net capital, permitted by the Rule, which requires that the Company maintain minimum net capital as defined, equal to the greater of \$250 or 2 percent of aggregate debit balances arising from customer transactions, as defined. At December 31, 2016, the Company had net capital of \$36,652, which was \$36,402 in excess of its required net capital.

The Company is subject to determination of reserve requirements under Rule 15c3-3 of the Securities Exchange Act of 1934. At December 31, 2016, the Company computed the reserve requirement for customers and was required to segregate \$11,189 in the special reserve bank account for the exclusive benefit of customers. At December 31, 2016, the amount held on deposit in the special reserve bank account was \$23,774.

9. Subsequent Events

The Company has evaluated and determined that no events or transactions occurred after December 31, 2016 and through the issuance date, February 22, 2017, of this Statement of Financial Condition that would require recognition or disclosure in this Statement of Financial Condition.