

## **Appendix 1**

### **Wrap Fee Disclosure Brochure**

This brochure provides important information about the qualifications and business practices of USA Financial Securities Corporation. If you have questions about the contents of this brochure, please contact our compliance department at (888) 407-8198. The information contained in this document has not been approved or verified by the United States Securities and Exchange Commission ("SEC") or any state securities authority. This brochure is updated as of April 15, 2024, with an additional change to Item 4 from the version published March 21, 2024.

Additional information about USA Financial Securities is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Please consider carefully before becoming a client. USA Financial Securities is an SEC registered adviser, SEC File No. 801-68276. SEC registration does not imply a certain level of skill or training.

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## ITEM 2: MATERIAL CHANGES

USA Financial Securities' last brochure update was March 31, 2023. Since then, we have added additional clarity surrounding representative portfolio fee schedules. We have expanded the information related to other industry affiliations and provided additional information surrounding conflicts of interest from these affiliations through common ownership by USA Financial Corporation. In Item 5, we also added the ability for USA Financial Securities to share information regarding client accounts with other members of their household. USA Financial Securities has discontinued use of T.D. Ameritrade (now Schwab) and removed all references to such. We added information surrounding USA Financial Securities' advisory services that include offering accounts with independent third-party money managers as well as advisory services that include permitting some representatives to offer investment strategies in a sub-adviser relationship with USA Financial Exchange, an affiliated TAMP.

Please read the remainder of this brochure as it contains other important information related to our business. Also, you can find our Form CRS in this document or on our website at <https://www.usafinancial.com/forms-and-disclosures>. The Form CRS is a relationship summary that provides simplified disclosures and information related to how you can engage with our firm and what conflicts or disclosures you should be aware of when working with us. The website contains the expanded disclosure information that could not fit within Form CRS's page-limit confines.

You may request a copy of our Brochure, including Form CRS, by contacting the compliance department at (888)407-8198. The ADV Brochure can also be found on our website: <https://www.usafinancial.com/forms-and-disclosures>.

Additional information about our firm is also available via the SEC's web site [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The SEC's web site also provides information about any individuals affiliated with us who are registered, or are required to be registered, as investment adviser representatives of the firm.

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## ITEM 4: SERVICES, FEES AND COMPENSATION

**A.** The primary purpose of this Appendix is to provide detailed information regarding our firm's wrap-fee program, offered through Pershing. A wrap-fee program bundles various services together and charges an all-inclusive fee, named a "wrap fee" because it wraps around all of the services rather than charging a separate fee for each service. USA Financial Securities receives a portion of the wrap fee, as does the client's investment adviser representative.

Because wrap-fee accounts are charged a monthly fee, these accounts are typically best suited for investors who anticipate engaging in moderate to high levels of investment activity within their account. Infrequent trading is not supported by this fee structure, and clients with very little trading activity or account management are often better served in a traditional commission-based brokerage account.

**B.** Clients participating in USA Financial Securities' wrap-fee platforms will be charged a maximum fee of 2.7% annually. Fees may be negotiated between clients and their investment adviser representative, provided that the negotiated fee does not exceed 2.7%. USA Financial Securities receives a portion of the fee, as does the client's investment adviser representative.

Fees may be negotiated between clients and their investment adviser representative, provided that the negotiated fee does not exceed 2.7%.

Pershing's platform for wrap accounts charges 0.30%

Pershing will bill clients for their account management fees monthly in arrears and will deduct the fees directly from the account. Pershing is also responsible for sending clients account statements. The statements will show each client's account value and the fee charged. Statements are sent no less than quarterly. Clients may object to the fee deduction by notifying USA Financial Securities at the address or telephone number shown on each billing invoice or by notifying Pershing. Please keep in mind that in addition to the quarterly paper statements clients receive, clients also have 24-hour online access to their account and statements.

USA Financial Securities' investment adviser representatives will manage client portfolios based on their stated needs, objectives, and risk tolerance. Investment adviser representatives receive between 70 and 100 percent of the management fee, which may be an incentive to recommend this wrap-fee program over other programs or services. However, USA Financial Securities monitors trading frequency, and if clients do not believe your account activity warrants the wrap-fee, USA Financial Securities will request that clients move their account to either a transaction-based pricing account or a commission-based brokerage account.

Because wrap-fee programs charge a single fee for a range of services that could potentially be obtained separately, it is possible that USA Financial Securities' wrap fee may be more or less than the cumulative fees a client would be charged if clients obtained each service separately. The cost effectiveness of participation in a wrap fee program over a non-wrap fee program is determined by the frequency of trading, among other factors. Additionally, the fee charged for participation in a wrap fee program may be higher or lower than those charged by other sponsors of comparable wrap fee programs.

**C.** The Program's wrap fee does not include certain charges and administrative fees, including, but not limited to, transaction charges (including mark-ups and mark-downs), alternative investment fees, wire fees, short term redemption fees, bond concessions, and loads. Participants may also incur transfer taxes, odd lot differentials, exchange fees, interest charges, American Depository Receipt agency processing fees, and any charges, taxes or other fees mandated by any federal, state or other applicable law or otherwise agreed to with regard to client accounts. Such fees and expenses are in addition to the Program's wrap fee.

**D.** USA Financial Securities' related persons who recommend the USA Financial Securities Advisory Wrap Fee Program to clients do not receive compensation as a result of a client's participation in the wrap fee program.

## ITEM 5: ACCOUNT REQUIREMENTS AND TYPES OF CLIENTS

Your account value must be at least \$15,000 to participate in USA Financial's wrap programs. Exceptions may be made, solely at the Firm's discretion, based on such factors as prior or anticipated investment activity. USA Financial Securities monitors account values and may remove billing on your account if the account cannot maintain values exceeding \$15,000. USA Financial Securities may decide to permit accounts lower than the \$15,000 threshold to remain on the platform in the firm's sole discretion.

USA Financial Securities' wrap-fee programs service individual, corporate, and trust accounts. As discussed above, because asset-based pricing charges a fee monthly, regardless of whether clients make trades in their account during a given quarter, the program is designed to accommodate accounts with moderate to high trading frequency. Therefore, as referenced above, USA Financial Securities monitors trading frequency, and if the firm does not believe the account activity warrants the wrap-fee, USA Financial Securities will request that the client move their account.

USA Financial Securities maintains affiliations with other money managers/investment advisers. Please see [Item 9, Additional Information - Other Financial Industry Activities](#) for a description of these arrangements. These money managers may impose account minimums or other thresholds that differ from USA Financial Securities' own minimums or thresholds. It is important to understand that industry wide, if account minimums or other imposed thresholds are not maintained, investment advisers may terminate an account.

## ITEM 6: PORTFOLIO MANAGER SELECTION AND EVALUATION

**A.** USA Financial Securities' representatives serve as the portfolio managers for the program.

**B.** USA Financial Securities acts as the portfolio manager for the Program. In as much as the execution costs for transactions effected in the client account will be paid by USA Financial Securities, a potential conflict of interest arises in that USA Financial Securities may have a disincentive to trade securities in the client account. In addition, the amount of compensation received by USA Financial Securities as a result of the client's participation in the Program may be more than what USA Financial Securities would receive if the client paid separately for investment advice, brokerage and other services.

**C.** Advisory Services

USA Financial Securities offers three categories of advisory services: financial planning, advisory account management, and representative guided investment strategies that offer limited distribution. Our representatives may charge a comprehensive financial planning fee and also receive an asset-based fee for any dollars managed on behalf of a client. In rare cases, upon firm approval, representatives may offer strategies for client investment. Financial planning is a comprehensive engagement process whereby the representative analyzes a client's entire investment portfolio in conjunction with their objectives, risk tolerance, and other relevant factors to determine an investment plan. Advisory account management may be a part of the financial-planning process, but clients can also have an advisory account without engaging in the financial planning process and vice versa. Advisory accounts are managed either on a transaction-based pricing method or an asset-based pricing method. Both methods are discussed in greater detail, below.

### Financial Planning Services

USA Financial Securities' investment adviser representatives provide financial planning services. As mentioned above, financial planners use a comprehensive planning method. They help clients set and achieve long-term financial goals through investments, tax planning, asset allocation reviews, risk management analyses, retirement planning, and estate planning. USA Financial Securities collects important financial information from each client, and uses that information, along with any additional information communicated to the representative, to develop a plan designed to meet each client's unique goals and objectives.

Each client is advised that it remains the client's responsibility to promptly notify USA Financial Securities if there is ever a change in the client's financial situation or investment objectives for the purpose of reviewing and possibly revising USA Financial Securities' previous recommendations or services.

Additionally, as part of offering a holistic approach to advising clients, representatives may recommend the services of other professionals for certain non-investment topics, such as attorneys or accountants. In these cases, the client is under no obligation to engage the services of any recommended professionals. The client retains all discretion over all such decisions and is free to accept or reject any recommendation. If a client has engaged with such a professional, and a dispute arises thereafter, the client agrees to seek recourse exclusively from and against the engaged professional.

Financial planning fees may be charged in addition to commissions or asset under management fees. Clients are not obligated to follow USA Financial Securities' recommendations or to pursue the recommendations through USA Financial Securities. Clients have control over investment decisions - clients may place restrictions on investing in certain types of securities or engaging in various investment activities. It is important that clients communicate their investment goals and objectives, including any restrictions, to the investment adviser representative. An open and honest dialogue between each client and their financial professional will help facilitate a successful working relationship.

Representatives may provide ongoing advice for accounts that, for various reasons, need to be maintained at an external and unaffiliated firm. In these cases, the client understands that representatives may be limited in the advice they are able to provide and are dependent upon information provided by the client. Investment options may be limited to the selections made available within the external and unaffiliated account.

## **Advisory Account Management**

USA Financial Securities and its investment adviser representatives can manage advisory accounts in two ways (essentially, the category of management is dictated by the way the fee is charged): transaction-based pricing or asset-based pricing. Clients pay a custodial and administrative fee ("C&A Fee") under both pricing structures. However, the C&A Fee is less on a transaction based pricing platform for the reasons described below. In addition to the C&A Fee, USA Financial Securities' advisers also charge a management fee. Under no circumstances will the management fee exceed 2.7%. USA Financial Securities receives a portion of the fees.

### **Transaction-Based Pricing Structure (Non-Wrap)**

USA Financial Securities' transaction-based pricing platform provides clients with investment advisory execution, clearing, and custodial services, through our custodian, Pershing. As the name suggests, under the transaction-based pricing structure, you pay a lower C&A Fee because you pay for transactions individually as they occur in addition to the C&A Fee. If clients do not engage in frequent transactions, then transaction-based pricing structure is generally more advantageous because the C&A Fee is less, and clients only pay for transactions when and if they occur.

### **Asset-Based Pricing Structure (Wrap)**

USA Financial Securities operates asset-based pricing programs at Pershing, a wrap-fee program. A wrap-fee program bundles various services together and charges an all-inclusive fee, named a "wrap fee" because it wraps around all services rather than charging a separate fee for each service.

Under an asset-based pricing structure, clients pay a higher C&A Fee because the transaction costs are included in the C&A Fee - the C&A Fee does not increase regardless of how many transactions each client makes. If clients engage in a high number of transactions in their account, the asset-based pricing structure is more ideal because they will generally pay less as transaction costs can add up over time.

Because wrap-fee accounts are charged a monthly fee, these accounts are typically best suited for investors who anticipate

engaging in moderate to high levels of investment activity within their account. Infrequent trading is not supported by the fee structure, and clients with very little trading activity or account management are better served in a traditional commission based brokerage account or the transaction-based pricing platform.

For more information regarding our wrap-fee programs, please see our separate, wrap-fee brochure, [Appendix 1 - Wrap Fee Brochure](#).

## Third Party Money Management

Representatives may provide access to the services and investment advisory service from third party, unaffiliated investment advisory firms. Representatives serve as the portfolio manager on these accounts and make strategic decisions and recommendations as to the strategies that would most appropriately align with the client's stated investment objectives. In these situations, the third party money manager shall have the day-to-day responsibility for the active discretionary management of the assets allocated to these strategies. USA Financial Securities' representatives shall evaluate the appropriateness of a particular strategy based upon a number of factors including investment objectives, management style, performance, reputation, financial strength, pricing and research.

In some scenarios, the third party money manager recommended by a representative permits investment in various strategies offered by independent and unaffiliated firms, and in some cases the third party offers a platform for individualized advice and recommendations from the representative.

In these situations, clients should obtain the Form ADV Part 2A Brochure from the third party money management firm through which their assets will be invested.

## Representative Guided Investment Strategies

USA Financial Securities serves as a sub-adviser on the USA Financial Exchange platform (further discussed in Section 10: Other Industry Affiliations). USA Financial Securities affords the opportunity to investment adviser representatives to offer customized financial strategies to clients, referred to as "AIM" (Adviser as Investment Manager) Strategies. AIM Strategies allow representatives to offer unique investment options to clients that reflect the representative's investment philosophy. These strategies are exclusively distributed through USA Financial Exchange, an affiliate of USA Financial Securities. Clients that choose to invest in an AIM Strategy will require an account with USA Financial Exchange, which in turn will benefit USA Financial Securities as an affiliate through common ownership. Clients are able to request reasonable restrictions on investing in certain types of securities.

AIM Strategies have varying fee structures, determined by the representative.

Recommendations from representatives to invest in these customized strategies present a conflict of interest, as the representative serves as both the representative making the recommendation to the AIM Strategy and the strategy manager as well. Meaning, the representative will receive compensation twice: once to give investment advice on the overall portfolio and again will receive the strategy fee paid by the AIM Strategy that was recommended. This dual fee structure may incentivize representatives to prioritize the promotion of their own strategies over other alternative options.

USA Financial Securities provides investment advisory services that are specific to the needs of each client. Before making any investment recommendations, representatives will ascertain each client's investment objectives. Thereafter, USA Financial Securities will allocate and/or recommend the client allocate investment assets consistent with the client's investment objectives. The client may impose reasonable restrictions, in writing, on USA Financial Securities' services.

USA Financial Securities offers both wrap and non-wrap advisory account services to clients. Non-wrap services are assessed charges separately for each service, on an unbundled basis. These services include but are not limited to: trade costs, investment advisory fees, and custody fees. USA Financial Securities also offers wrap fee advisory accounts to clients. In a wrap fee account, the client will pay a single fee for the bundled services that would otherwise be assessed separately. In a wrap fee account, USA Financial Securities does receive a portion of the fee for compensation for its services.

## Performance Based Fees and Side-By-Side Management

USA Financial Securities does not charge performance fees - that is, fees based on a share of capital gains or capital appreciation of the assets in client accounts.

Side-by-side management occurs when an investment adviser manages both performance-based fee accounts non-performance based fee accounts at the same time. Side-by-side management can result in conflicts of interest because there is an incentive to direct clients to performance-based fee accounts because the firm will, most likely, receive more fees. However, because USA Financial Securities does not charge performance fees, the Firm does not engage in side-by-side management and have no conflicts of interest relevant to side-by-side management.

## Methods of Analysis

USA Financial Securities' investment adviser representatives may utilize many different methods of analysis when developing each client's specific financial plan. For example, representatives may review past investments that had been made and compare those investments with current objectives to determine whether those investments are still a good fit, or he or she may use software to design a plan that supplements the client's current plan.

USA Financial Securities offers advice about a wide variety of investment types, including mutual funds, exchange traded funds, index funds, equity index annuities, fixed annuities, variable annuities, and unit investment trusts. Each client's unique situation and financial goals will dictate which investment products or strategies are appropriate.

## Voting Client Securities

USA Financial Securities will not be responsible for responding to proxies that are solicited with respect to annual or special meetings of shareholders of securities held in a client's account. Proxy solicitation materials will be forwarded to clients for response and voting.

Please also note that USA Financial Securities will not be obligated to take action or render legal advice with respect to securities or other investments that become the subject of legal notices or proceedings, including bankruptcies.

## ITEM 7: CLIENT INFORMATION PROVIDED TO PORTFOLIO MANAGERS

USA Financial Securities wrap fee program does not utilize traditional money managers. As stated above, investment adviser representatives manage client accounts based on each client's investment goals and objectives. Investment adviser representatives have access to the information clients provide to USA Financial Securities, as well as any additional information clients choose to share.

## ITEM 8: CLIENT CONTACT WITH PORTFOLIO MANAGERS

Because the portfolio manager is each client's representative, there are no restrictions on a client's ability to speak or meet with their investment adviser representative, other than ordinary scheduling conflicts.



## ITEM 9: ADDITIONAL INFORMATION

### A. Disciplinary Information

Beginning in 2019, the Securities and Exchange Commission's ("SEC") Enforcement Division began a national "sweep" investigation with respect to various types of revenue-sharing arrangements in the securities industry, including commonly used "sweep" programs for clients' short-term cash management. USA Financial Securities Corporation's ("USA Financial") clearing/carrying firm, Pershing, offers these arrangements to investors through our firm. To facilitate transfers or funds awaiting investment, many clients elect to participate in Pershing's "Choice Plus" cash sweep program and designate a money market fund available on Pershing's platform. Consequently, we were included in the SEC's "sweep - sweep". On August 3, 2021, USA Financial agreed to a settlement with the Commission in order to resolve the Commission's inquiry into our participation in Pershing's cash sweep program. A copy of that order is attached for your review.

During the relevant period of the SEC's investigation, 2015-2020, USA Financial participated in Pershing's Choice Plus program. The Choice Plus money market funds provided revenue sharing basis points to firms based on average fund balances. USA Financial's options, at the time spelled out in Pershing's schedule of available money market funds, were to participate in Choice Plus or utilize non-Choice Plus money market funds. By utilizing the Choice Plus program, participating investors did not incur brokerage fees or ticket charges on money market fund sweep deposits or later redemptions - critical cost-saving features for short-term cash management holdings. Moreover, we compared historical performance among the available MMF options, and Pershing informed us that revenue sharing did not affect these MMFs' investment returns to clients. So, we chose to participate in the program because we believed it was more advantageous to you based upon then-available information provided by Pershing.

In preparation of our response to the SEC staff, USA Financial spoke with our designated Pershing representatives on multiple occasions. Throughout our early 2020 communications with Pershing - then even knowing the reason and seriousness of the SEC's investigation - Pershing still never advised us that there was, in fact, an alternative MMF group available with the same client-favored features but without a revenue sharing component. Finally, on October 1, 2020, USA Financial was connected to Pershing's legal department. In that conversation, it was revealed to us that Pershing now maintains an additional MMF group, so-called "Group 0", in Pershing's Choice Plus program. As we now understand it, this "Group 0" provides all of the client benefits of the Choice Plus MMFs-no ticket charges, no transaction charges-but Pershing does not pay revenue sharing on "Group 0" funds. Pershing listed no "Group 0" option in its 2012 or 2016 clearing agreement schedules. Indeed, even Pershing's new designation-"Group 0" evidences that this alternative was not then in existence.

Pershing did not communicate the existence of any "Group 0" funds to USA Financial at any time prior to October 1, 2020-which came from a conversation USA Financial requested with Pershing's legal department, not from Pershing's business or operations teams. "Group 0" was not announced by Pershing and it was certainly not available to USA Financial when our Choice Plus MMF selections were made in 2012 and 2016. In short, until Pershing's legal department's revelation, we believed our "default" MMF selections were the best available for clients seeking short-term cash management solutions at the lowest available cost-i.e., without transaction costs or ticket charges.

USA Financial did not inform our advisers that Choice Plus provided our firm with revenue share nor did we promote or incentivize your financial adviser to recommend the Choice Plus MMFs over Pershing's other available MMFs-the goal being that each recommendation was made on a neutral, case-by-case basis. USA Financial received, in the aggregate, an extraordinarily small amount of revenue sharing from Pershing over the entire five-year Relevant Period, illustrating the lack of significance our firm placed on Pershing's Choice Plus program. While some industry firms received 25% of their overall revenue from cash-sweep revenue, USA Financial Securities' revenue share accounted for only 0.22% of our firm's overall revenue.

Nevertheless, our participation in the program constituted a conflict and we took corrective action as a result. We moved all clients away from MMFs that provide revenue share - it was never our intent to make money off this program and therefore, we have no interest in maintaining this type of arrangement as part of our business model. Additionally, we deposited a portion of the revenue sharing we received from Pershing in a "fair fund" account for the benefit of all affected clients. Affected clients will receive a distribution from the Fair Fund. Finally, we paid a fine which was deposited into the U.S. Treasury.

### Other Financial Industry Activities and Affiliations

USA Financial Securities also conducts business as a broker-dealer. As a broker-dealer, we are regulated by the SEC, FINRA, and state regulators. SEC file number is 8-52342, and our CRD number is 103857.

Most of USA Financial Securities' investment adviser representatives are also registered representatives of our broker-dealer. The proportion of time each representative spends on securities brokerage, investment adviser, insurance and other activities varies from representative to representative. Clients should always feel free to ask their adviser investment representative about their activities.

USA Financial Securities does not have an application pending to register as a futures commission merchant, commodity pool operator, or a commodity trading advisor.

USA Financial Securities is a wholly-owned subsidiary of USA Financial Corporation. USA Financial Corporation also owns other companies: USA Financial Insurance Services Corporation ("USAF Insurance"), USA Financial Formulas Corporation ("USA Financial Formulas"), USA Financial Marketing Corporation ("USAF Marketing"), USA Financial Exchange Corporation ("USAF Exchange"), and USA Financial Protocol Corporation ("USAF Protocol"). USAF Insurance wholesales fixed insurance products to independent insurance agents. USAF Formulas is an SEC-registered investment adviser. USA Financial Marketing develops and distributes marketing and technology solutions for financial professionals. USAF Exchange is an SEC registered investment adviser offering advisory platform services to financial advisers and registered investment advisers. USAF Protocol serves as a marketing and brand-building resource for registered investment advisers.

Michael Walters is the chief executive officer of USA Financial and all subsidiaries and Brent Enders is the president.

USA Financial Securities obtains many of its representatives through its affiliates. Representatives who connect with USA Financial through one subsidiary typically elect to utilize USA Financial Securities as their broker-dealer/registered investment adviser. Additionally, USA Financial Securities maintains expense-sharing agreements with its affiliates, whereby certain administrative expenses are shared between two entities. These expenses include, but are not limited to, equipment rental, telephone services, health insurance, cleaning services, and a security system. These arrangements are essential to USA Financial Securities' ability to provide services to its clients.

## **USA Financial Securities Broker-Dealer**

As mentioned in Item 10 Section A, USA Financial Securities operates as a broker dealer in addition to a registered investment advisor. Representatives who are registered with the broker-dealer have the ability to utilize both advisory accounts and commission accounts, depending on which recommendation is most appropriate for their client. This could potentially result in a conflict of interest should a representative's recommendations be driven by the possibility for increased revenue from utilizing an inappropriate account type that is not in line with the client's investment objectives or in their best interest. USA Financial Securities Written Supervisory Procedures address these possibilities and implement stringent supervision requirements to mitigate this conflict.

## **USA Financial Formulas**

USA Financial Formulas' primary objective is to eliminate human emotion from the investing process. USA Financial Formulas does this by using a step-by-step, objective stock-selection process. The firm does not use money managers. USA Financial Formulas' stock selection criteria is based on a particular portfolio's objective, and then a formula selects only those equities that meet the qualification criteria.

USA Financial Formulas charges a strategy fee to investors that invest in USA Financial Formulas strategies through USA Financial Exchange.

USA Financial Formulas is an affiliate of USA Financial Securities and therefore, recommending USA Financial Formulas creates a conflict of interest because USA Financial Corporation gets paid more, overall, if clients invest in USA Financial Formulas rather than other unaffiliated money managers.

## USA Financial Exchange

USA Financial Exchange is a registered investment adviser and an affiliate. USA Financial Exchange's core business is to offer operational support services, business support services (such as technology and marketing), and a turnkey asset management program to independent, registered investment advisers ("RIAs") for use with their clients (the "Clients").

USA Financial Securities operates as a sub-adviser on the USA Financial Exchange TAMP. This relationship poses a conflict of interest for USA Financial Securities as USA Financial Corporation gets paid more, overall, if a representative recommends assets to be allocated to a USA Financial Exchange account. Clients are not required to implement recommendations to open a USA Financial Exchange account.

## USA Financial Insurance

USA Financial Insurance serves as both an FMO and wholesaler for many fixed annuity products, meaning, USA Financial Insurance gets paid for each annuity policy that is issued through this entity. USA Financial Corporation gets paid more overall if recommendations for annuity products are implemented using the representative and their affiliation with USA Financial Insurance. Clients are not required to implement recommendations with USA Financial Securities or USA Financial Insurance.

Each of the above mentioned affiliated entities presents a conflict of interest in that a recommendation to utilize any of the services provided by the affiliated entities, if implemented, would result in more compensation for USA Financial Corporation. This type of arrangement has the potential to influence USA Financial Securities' representatives to recommend strategies, services, or products offered through a USA Financial Corporation owned entity over those offered by an unaffiliated entity.

## ADDITIONAL CONFLICTS

USA Financial Securities is a business. And, as a business, the goal is to make a profit so that the firm can continue to improve our services and product.. Their clients' best interests are USA Financial Securities' primary concern. There are, necessarily conflicts of interest that arise in the financial services industry. A conflict of interest is anything that could cause USA Financial Securities to place its interests ahead of the client's. These conflicts are found everywhere in our industry, but USA Financial Securities tries to mitigate them and disclose them to clients so that they are informed. In this section, USA Financial Securities discloses conflicts that clients should understand and consider before investing.

## RECRUITING ARRANGEMENTS AND COMPENSATION

Recruiting arrangements in the financial services industry are not uncommon - whether the payment is up front or in the form of additional compensation through affiliated entities. USA Financial does not offer up front recruiting bonuses. We do provide representatives with transition support dollars to help with the cost and loss of revenue associated with moving brokerage or advisory firms. USA Financial Securities also wants our representatives to feel like partners. Therefore, USA Financial created the Advisor Legacy program. The Advisor Legacy program has many components, but most important in terms of conflicts, is the Advisor SHARES program. Advisor SHARES grants ownership interest to USA Financial's qualified representatives based on revenue submitted to USA Financial Securities and its affiliates. We do not favor one product or product category over another - representatives earn shares based on volumes submitted across the products and services our company offers. However, clients need to be aware of this program because it is an incentive for representatives to move to USA Financial Securities and place business with our firm. We believe we mitigate this risk by not favoring one product over another and maintaining strict suitability reviews and standards to ensure that all transactions are in the client's best interest.

## 12B-1 FEES IN BROKERAGE ACCOUNTS

As referenced in our Form CRS, USA Financial Securities receives 12b-1 fees from mutual fund companies when you purchase mutual funds within a brokerage account. USA Financial Securities eliminated 12b-1 fees for mutual funds purchased in advisory accounts based on our fiduciary duty as a registered investment adviser. This creates a financial incentive to make recommendations that result in

the receipt of that compensation, i.e., recommending that clients open a brokerage account rather than an advisory account. Depending on the nature of the compensation, this financial incentive would give rise to conflicts relating to, for example, the types of investments, the fund families, the particular funds and the share classes of individual funds that we recommend, as well as the extent of trading representatives recommend. For instance, when USA Financial Securities receives 126-1 fees in connection with mutual fund recommendations, USA Financial Securities has a financial incentive to recommend that clients invest in a share class that pays 126-1 fees. The resulting conflict of interest is especially pronounced when share classes of the same funds that do not bear these fees are available to clients. However, USA Financial Securities mitigates this conflict on brokerage business by conducting account reviews to ensure that the costs associated with the account and the ongoing trading and maintenance of the account are in the client's best interest.

## **VARIABLE ANNUITY CONFLICTS**

USA Financial Securities also has arrangements whereby we wholesale variable annuities. Currently, we wholesale variable annuities for Allianz and Lincoln Financial Group. By wholesaling these variable products, the insurance company pays USA Financial a portion of the commission that it would normally pay its internal wholesalers. This is a conflict of interest and creates a situation whereby we have an incentive to recommend the variable annuities we wholesale compared to variable annuities the firm does not wholesale. USA Financial Securities mitigates this risk by conducting an independent best interest review performed by securities operations professionals. Clients are not obligated to purchase these variable annuities and we have other variable annuities available that do not pay USA Financial Securities conflicted compensation.

## **B. Code of Ethics**

USA Financial Securities conducts its advisory business professionally and ethically, adhering at all times to relevant rules, laws, and guidelines. Accordingly, pursuant to Rule 204A-1 of the Investment Advisers Act of 1940, USA Financial Securities has adopted a Code of Ethics. Copies will be provided upon request.

USA Financial Securities or its representatives may buy or sell securities for its or their own account(s) ("Proprietary Account(s)"), securities that we recommend to our clients, including clients that are related persons. Neither USA Financial Securities nor the firm's related persons are permitted to enter into, or have an interest in, an investment transaction that would create a conflict between their interests and the client's interests without fully disclosing the conflict to affected clients. Similarly, neither the firm nor their related persons are permitted to benefit, directly or indirectly, from transactions made in client accounts. Proprietary Accounts may benefit on the same basis and to the same extent as clients' accounts when each holds the same investment. USA Financial Securities does not allow "cross transactions" between clients or between clients and Proprietary Accounts.

USA Financial Securities and/or representatives of USA Financial Securities may buy or sell securities that are also recommended to clients, which purchases may be made in the separate capacity as a registered representative of a broker-dealer. This practice may create a situation where USA Financial Securities and/or representatives of USA Financial Securities are in a position to materially benefit from the sale or purchase of those securities. Therefore, this situation creates a material conflict of interest. Practices such as "scalping" (i.e., a practice whereby the owner of shares of a security recommends that security for investment and then immediately sells it at a profit upon the rise in the market price which follows the recommendation) could take place if USA Financial Securities did not have adequate policies in place to detect such activities. In addition, this requirement can help detect insider trading, "front-running" (i.e., personal trades executed prior to those of USA Financial Securities' clients) and other potentially abusive practices.

To address this material conflict of interest, USA Financial Securities has a personal securities transaction policy in place to monitor the personal securities transactions and securities holdings of each of USA Financial Securities' "Access Persons." USA Financial Securities' securities transaction policy requires that an Access Person of USA Financial Securities must attach the brokerage accounts of themselves or immediate household family members to a software program that captures information regarding trades placed in those accounts for supervision by a USA Financial Securities' compliance team member.

Generally, investments may only be purchased for proprietary accounts simultaneously or after client purchases. Investments may only be sold simultaneously or after client sell-orders are completed. Exceptions may be made for personal securities trades that USA

Financial Securities believes do not involve potential conflicts of interest, such as open-ended mutual funds, U.S. Treasury securities, and small amounts of stock or closed-end funds that have very large market capitalization and/or very high average trading volume.

## Review of Accounts

Every financial agreement and investment advisory account prior to the account being established is reviewed by a Principal Account Manager of USA Financial Securities. Before USA Financial Securities will execute an agreement with a client, we require representatives to submit, along with the agreement, a written document outlining the considerations that went into the recommendation or a copy of the written financial plan. USA Financial Securities' Principal Account Manager uses the information provided on each client's Client Profile, along with the written financial plan, to determine the appropriateness of the representative's recommendations. We also conduct period account reviews when supplemental documentation is submitted for an established financial plan, to ensure that the additional action is consistent with the original financial plan.

USA Financial Securities may conduct account reviews on other than periodic basis upon the occurrence of a triggering event, such as a change in client investment objectives and/or financial situation, market corrections, and client requests.

Clients are provided, at least quarterly, with written transaction confirmation notices and/or regular written summary account statements directly from the broker-dealer and or custodian and/or program sponsor for the client accounts. USA Financial Securities may also provide a written periodic report summarizing account activity and performance. We urge our clients to compare the reports they receive from their representative with those received from the broker-dealer and/or custodian.

## Client Referrals and Other Compensation

Because USA Financial Securities is a registered broker-dealer, the firm will receive commissions on any products that clients purchase through the broker-dealer. This may or may not create a conflict of interest. Furthermore, commissions paid to USA Financial Securities may be higher or lower than those obtainable at other broker-dealers.

Many of USA Financial Securities' investment adviser representatives are also registered representatives of our broker-dealer. These representatives may receive additional compensation and/or commissions from the purchase and sale of stocks, mutual funds, variable annuities, other investment products, and insurance products through the broker-dealer. This compensation includes 12b-1 fees.

## 12b1 Fee Offset Policy

USA Financial Securities is dually registered as both an investment adviser and a broker-dealer. As a broker-dealer we receive 12b1 fees (sometimes called "trail commissions") from the sale of certain share classes of certain mutual funds. Depending on your circumstances and investment objectives, clients may pick and/or we may recommend mutual fund share classes that pay the firm 12b1 fees with respect to client purchases. Mutual fund prospectuses provide a full description of the types of fees and charges they impose, including 12b1 plans and related fees they pay to broker-dealers for distribution and shareholder servicing. Many but not all mutual funds offer share classes that pay 12b1 fees.

As an investment adviser USA Financial Securities strives to provide objective investment advice when representatives make recommendations, including the selection of mutual funds and share classes. In order to mitigate the conflict of interests, USA Financial Securities have adopted a "fee off-set" policy. ("12b1 Fee Off-set Policy"). Under USA Financial Securities' 12b1 Fee Off-set Policy the firm has instructed mutual fund companies and clearing broker dealers holding mutual funds in their accounts to credit all 12b1 fees USA Financial Securities receive to clients' investment adviser advisory accounts. USA Financial Securities' 12b1 Fee Off-set Policy is limited to the 12b1 fees that the firm actually receives with respect to mutual fund shares held in client account(s) with the firm. This includes 12b1 fees paid on mutual fund shares clients may already own when they establish an investment advisory services account with USA Financial Securities. The 12b1 Fee Off-set Policy is limited to the amount of advisory fees otherwise payable by clients to the firm with respect to USA Financial Securities' advisory services. Under the Investment Company Act of 1940 USA Financial Securities cannot rebate mutual fund brokerage commissions in excess of the amount of advisory fees chargeable



to the client's account. While custodial account statements may differ in how the 12b1 Fee Off-set Policy is reported, client account statements should show a credit for the 12b1 fees the firm would otherwise have received for a client's mutual fund purchases.

As referenced elsewhere in this brochure, clients are not obligated to act upon any investment advice or recommendation USA Financial Securities and investment adviser representatives may give with respect to any mutual fund or any share class. Clients are not obligated to use the brokerage services the firm and registered representatives offer to purchase mutual fund shares. Clients may use the services of any broker-dealer of their choosing, whether or not affiliated with USA Financial Securities or the representatives. Clients may purchase mutual fund shares directly from some fund companies. However, our 12b1 Fee Off-set Policy is limited to the amount of 12b1 fees the firm would have otherwise received if not credited to the client's account.

For a more detailed discussion related to mutual fund share classes, including sales charges, fees, and other important considerations, please view our Mutual Fund Share Class Disclosure document. Clients may request a copy of this disclosure form from investment adviser representatives. Alternatively, a copy of the Mutual Fund Share Class Disclosure can be found on USA Financial Securities' website at: <http://www.usafinancialsecurities.com/investments-and-products>.

Additionally, in order to provide the best service possible, USA Financial Securities offers clients the opportunity to invest with outside, third-party money managers. These arrangements generally work one of two ways. If USA Financial Securities refers clients to a third-party money manager, the firm is considered the solicitor, and the third-party money manager is the registered investment adviser. However, some third-party money managers simply provide investment platforms for USA Financial Securities to utilize, and while the third-party money manager executes trades and directs the management of client assets, USA Financial Securities retains its investment adviser status. Under both arrangements, USA Financial Securities receives a portion of the advisory fee the clients paid to the third-party money manager.

Finally, it is standard industry practice for registered representatives of broker-dealers to have marketing agreements with product suppliers. These suppliers may include mutual fund companies, variable annuity companies, unit investment trust companies or real estate investment trusts. These marketing agreements provide for payment of marketing expenses to the selling broker-dealer or its registered representative in addition to commissions. These fees are not normally a direct expense of a particular product but are paid by the sponsoring company to make up for costs incurred by the broker-dealer or its registered representative for marketing the product. USA Financial Securities employs investment adviser representatives, who in their capacity as registered representatives of a broker-dealer, may receive marketing allowances through the broker-dealer with respect to recommended products.

## Cash Sweep Revenue

Pursuant to the SEC's sweep-sweep examination - discussed in **Item 9**, above, USA Financial has decided to no longer offer money market funds ("MMFs") that provide revenue sharing to our firm. For many years, USA Financial participated in Pershing's Choice Plus program and made sweep accounts available to its clients whereby the cash balance in a brokerage account at Pershing was automatically deposited or "swept" into an interest-bearing Bank Deposit Sweep Program account utilizing MMFs. Some of the Choice Plus MMFs provide revenue sharing to firms - some do not. To avoid a conflict of interest, we will no longer utilize MMFs that participate in revenue sharing. We will still have cash sweep MMFs available that provide the same client-centric benefits of the revenue-sharing Choice Plus MMFs-no ticket charges, no transaction charges-but Pershing will not pay revenue sharing on the funds we make available.

As part of discontinuing our participation in revenue-sharing MMFs, we transferred already-invested clients ("Legacy Clients") to other, similarly situated MMFs that do not provide revenue. Legacy Clients were allowed to opt out of the MMF we chose as a replacement. Upon opt out, Legacy Clients were given the option to remain invested in the revenue-sharing MMF and, as a result, consented to the revenue sharing arrangement. That being said, **we encourage all investors to choose MMFs that do not share revenue** and will continue to encourage Legacy Clients to move away from revenue-sharing MMFs. However, because Legacy Clients were given the right to opt out, they could be invested in MMFs that are not available to all investors. Moreover, it is important that all of our clients understand that USA Financial will continue to receive revenue on the revenue-sharing Choice Plus MMFs until all Legacy Clients transfer assets away to our preferred MMFs. The revenue share is minimal; however, the mere existence of this revenue is a conflict of interest and an incentive to keep assets invested in the revenue-sharing MMFs. We will not recommend sweep-eligible money market funds to new investors.

Generally, USA Financial Securities does not compensate any person or company, directly or indirectly, for client referrals. However, in very limited circumstances, we do maintain relationships with certain lead generation companies that put clients in touch with financial advisers. Specifically, our investment adviser representatives work with SmartAsset Advisors ("SmartAsset"). SmartAsset refers potential clients to financial professionals in exchange for a referral fee. All clients referred as part of this arrangement have signed up and indicated that they want to be matched to a financial professional in their area. SmartAsset makes the introduction. Clients then choose if they want to work with the adviser - there is no obligation. The amount of the referral fee is determined between each financial professional and SmartAsset pursuant to a written agreement, but compensation will take the form of a retainer, a flat fee per referral, and/or a percentage of introduced capital. The referral fees are paid by the Advisor to whom you are matched, regardless of whether you become a client. No portion of the referral fee is paid by you, as the investor. Furthermore, the fees you pay for your financial professional's investment advice will not increase because of their arrangement with SmartAsset.

Neither USA Financial nor our investment adviser representatives are affiliated with SmartAsset.

## Financial Information

Because USA Financial Securities has discretionary authority over client accounts, the firm is required to disclose, to clients, whether any financial conditions exist that would be likely to impair the firm's ability to meet contractual commitments. USA Financial Securities is pleased to report that no such financial issues or conditions exist at this time.