



**Form ADV, Part 2A (Firm Disclosure Brochure) for  
Financial Planning and Consulting Services**

**Principal Securities, Inc.**

655 9th Street

Des Moines, IA 50309

888-774-6267

March 30, 2023

This Brochure provides information about the qualifications and business practices of Principal Securities, Inc. ("Principal Securities"). If you have any questions about the contents of this Brochure, please contact us at 888-774-6267. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Principal Securities is a registered investment adviser. While registration is required under the law, registration of an investment adviser or a broker-dealer does not imply any specific level of skill or training.

Additional information about Principal Securities is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov) and on FINRA's website at [www.finra.org/brokercheck](http://www.finra.org/brokercheck).

Securities, advisory products, and brokerage services are offered through Principal Securities, Inc., Member SIPC.

## **Item 2 - Material Changes**

This Item 2 (Material Changes) will discuss only specific material changes that are made to the Brochure and provide clients with a summary of changes.

Since our last annual update on March 30, 2022, we have made the following material changes to our Brochure:

- Item 4 was updated to expand and clarify services offered.
- Clarification was made in Item 5 related to refunding of fees.
- Language was removed in Item 5 referencing agreements ending after a one year period.
- Item 5 was updated to include a new Financial Planning and Consulting Fee Offset available to Financial Advisors
- The Cash and Non-Cash Compensation section in Item 14 was updated to include disclosure related to promoter relationships and revenue sharing arrangements.

We encourage all clients to review the Firm Disclosure Brochures thoroughly to determine any impact to their situation.

All information related to the Principal Securities Financial Planning and Consulting programs are included within this Firm Disclosure Brochure.

Pursuant to SEC Rules, we will ensure that you receive a summary of any material changes to this and subsequent Brochures within 120 days of the close of our business' fiscal year. Our fiscal year-end is December 31st. We will provide other ongoing disclosure information about material changes as necessary throughout the year.

We will provide you with a new Brochure as necessary based on changes or new information, at any time, without charge.

Our Brochure may be found on [www.PrincipalSecurities.com](http://www.PrincipalSecurities.com) or requested free of charge by contacting us at 888-774-6267.

Additional information about Principal Securities is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov) and on FINRA's website at [www.finra.org/brokercheck](http://www.finra.org/brokercheck).

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## **Item 4 - Advisory Business**

### **Introduction**

Principal Securities (“we”, “us”, “our”, “Firm”) is federally registered with the SEC as an investment adviser and is a member broker-dealer with the Financial Industry Regulatory Authority (“FINRA”). Principal Securities is registered or licensed to conduct business in all fifty states and the District of Columbia.

Principal Securities began its operation in 1968, and is headquartered in Des Moines, Iowa. Principal Securities is a member company of Principal Financial Group, a family of financial services companies offering businesses, individuals and institutional clients a wide range of financial products and services, including retirement and investment services, life and health insurance, and banking through its diverse family of financial services companies.

Principal Securities’ principal business activity is acting as a securities broker-dealer. When acting as a broker-dealer, Principal Securities provides securities-related advice to its brokerage clients that is incidental to the brokerage services provided and for which Principal Securities does not receive any special compensation (i.e., compensation other than the usual and customary brokerage commissions). Brokerage services and incidental advice are provided by individuals who are registered representatives of Principal Securities (“Broker-Dealer Representatives”). Principal Securities does not consider clients who receive only brokerage services or such incidental advice from our Broker-Dealer Representatives to be investment advisory clients (“Advisory Clients”, “you”, “your”).

Principal Securities is a wholly owned subsidiary of Principal Financial Services, Inc. which is a wholly owned subsidiary of Principal Financial Group, Inc. Principal Financial Group, Inc. is a publicly held company traded on the NASDAQ.

In addition to the programs described in this document, Principal Securities offers wrap fee investment advisory programs that are described in the Principal Managed Account Solutions Wrap Fee Disclosure Brochure, as well as Principal Direct Advisory Accounts and Retirement Plan Consulting Services, each described in separate Form ADV Part 2A brochures that are available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

As of 12/31/2022, Principal Securities client discretionary assets under management are \$6,955,842,506 and non-discretionary assets under management are \$2,461,012,356.

### **Financial Advisor vs Broker-Dealer Representative**

Principal Securities offers both brokerage and investment advisory services. Principal Securities requires that all Financial Advisors are also registered representatives of the Principal Securities broker-dealer. By being dually-registered, a Principal Securities representative can act either in the capacity of a registered representative offering brokerage services (also known as a Broker-Dealer Representative) or in the capacity of an investment adviser representative (referred to here as a Financial Advisor).

The programs described in this brochure are investment advisory services that can only be offered by a Financial Advisor that is working in the capacity of an investment adviser representative.

For more information regarding the differences between the brokerage and investment advisory services offered by Principal Securities representatives, please see Principal Securities' Form CRS Client Relationship Summary, available at <http://www.principalsecurities.com>.

### **Financial Planning and Financial Consulting Services**

Financial planning and financial consulting services are investment advisory services that are designed to be a collaborative process, providing you with recommendations based on analysis of your financial situation and in alignment with your financial goals and needs. The financial planning and consulting services provide for consultation with your Financial Advisor, typically through a series of personal meetings and telephone calls. For these services, your Financial Advisor may negotiate a fee based upon the client's financial needs and investment objectives, the time necessary to develop a plan or service and/or the complexity of the arrangement. If you engage your Financial Advisor for financial planning or financial consulting services, at the beginning of the relationship you will be provided with a Financial Planning or Financial Consulting Service Agreement ("Agreement"), which will detail important terms and conditions pertaining to the financial plan or consultation arrangement.

Fee-based financial planning is a service that considers many different aspects of your financial circumstances, typically by utilizing a financial planning software program to create an overall plan that is designed to meet your goals and objectives. A financial plan presents your current financial situation, provides actionable recommendations based on an analysis of the data you provide, tracks progress towards your goals and recommends changes as needed. Together with your Financial Advisor, you identify your objectives and goals, gather pertinent information including assets and liabilities, financial statements and tax returns, analyze the information, propose recommendations, take action on these recommendations and track progress.

Areas that can be covered during the financial planning process include, but are not limited to:

- financial position and retirement planning
- protection planning
- income tax planning
- risk management
- cash flow analysis
- business planning
- education planning and funding
- investment planning and asset allocation
- special needs planning
- estate planning
- key executive benefits and retention strategies
- business transfer and succession strategies
- charitable giving

For an additional fee, you will have the option to renew the Agreement to update your plan at least annually, or as your circumstances change. You can choose to implement all or any part of the financial plan through Principal Securities, or through any other broker-dealer, investment adviser or service provider of your choice. Please note if you choose to implement all or part of the financial plan through Principal Securities, your Financial Advisor will receive additional compensation for any product purchases or additional investment advisory services.

Your Financial Advisor must be certified to offer certain types of financial planning. Talk with your Financial Advisor for more information about the services available.

Financial consulting is an open architecture service that requires your Financial Advisor to collect information from you and develop customized recommendations that are delivered to you within the parameters of an agreed upon scope of consulting services. This can be set up as a point-in-time service (flat fee or hourly rate) or on a subscription basis. Under the subscription arrangement, the Financial Advisor is available to provide financial consulting services to the Advisory Client on an ongoing basis for which the Advisory Client pays a monthly fee. In some circumstances, depending on when an Advisory Client contracted for financial consulting services, the subscription service will automatically renew. This information can be found in the termination section of the Agreement.

Your Financial Advisor will provide you with analysis and recommendations based on your current financial situation and goals. A list of topics that can be covered through the financial consulting program includes, but is not limited to:

- Cash flow and debt analysis
- Net worth
- Investment analysis
- Risk analysis
- Charitable giving
- Wealth transfer
- Goals-based planning
- Education planning and funding
- Retirement planning
- Tax strategies
- Life events
  - Participant investment advice on ERISA retirement plan accounts
- Key person protection
- Business risk management
- Financial health/management
- Key executive benefits & retention strategies
- Business transfer and succession strategies
  - Employee education
  - Divorce financial analysis\*

*\*Financial Advisors are required to complete specialized training to provide divorce financial analysis.*

Education seminars and educational meetings may also be provided under Financial Consulting Services. Certain Financial Advisors can offer financial wellness services to employers for the benefit of their employees. In addition to educational seminars, the financial wellness services can include use of a financial wellness assessment tool, written financial education materials and/or educational meetings. Educational seminars and meetings present impersonal investment-related information and do not provide individualized investment advice.

Your Financial Advisor can provide investment advice for your retirement assets held in an employer-sponsored retirement plan (e.g. 401(k) plan and other similar accounts) under either the Financial

Planning or Consulting programs. To minimize conflicts of interest in providing this consultation for a fee, your Financial Advisor is not permitted to provide such advice related to these assets if they are otherwise serving as Financial Advisor to the plan in any capacity or are representative of record on the retirement plan account. Additionally, your Financial Advisor is not permitted to provide advice on assets in a retirement plan on certain plans for which Principal Securities' affiliates are providing recordkeeping, or trust/custodial services. Your financial advisor may discuss, present or offer ideas for you to consider related to the allocation of retirement assets. This can include general asset class allocation or specific transaction recommendations. Recommendations made to you will be based on information provided by you. You do not have to follow any of the recommendations made to you. You will be responsible for implementing any transactions related to the recommendations. If your Financial Advisor recommends any specific investment alternative in a retirement plan, please note that other investment alternatives with similar risk and return characteristics may be available to you. These investment alternatives may be more or less costly than those recommended by your Financial Advisor. Any recommendations made to you for your employer-sponsored retirement plan assets are limited to investments offered through the core line-up of investment alternatives selected by the retirement plan sponsor. Your Financial Advisor will not make recommendations related to employer stock or any investments related to a self-directed brokerage option or brokerage window that may be available under the plan. Neither Principal Securities nor your Financial Advisor is responsible for the selection of the investment alternatives available in your employer-sponsored retirement plan.

Consulting fees charged for advice on assets held as a participant in an employer-sponsored retirement plan, a separate brokerage account, advisory account, or other investment are in addition to any fees or commissions associated with those accounts.

When we (Principal Securities and your Financial Advisor) provide investment advice to you regarding your ERISA retirement plan account or individual retirement account, we are fiduciaries within the meaning of Title I of the Employee Retirement Income Security Act and/or the Internal Revenue Code, as applicable, which are laws governing retirement accounts. The way we make money creates some conflicts with your interests, so we operate under a special rule that requires us to act in your best interest and not put our interest ahead of yours. Under this special rule's provisions, we must:

- Meet a professional standard of care when making investment recommendations (give prudent advice);
- Never put our financial interests ahead of yours when making recommendations (give loyal advice);
- Avoid misleading statements about conflicts of interest, fees, and investments;
- Follow policies and procedures designed to ensure that we give advice that is in your best interest;
- Charge no more than is reasonable for our services; and
- Give you basic information about conflicts of interest.

As part of the overall process for either program, Principal Securities may provide access to an internet site offered by a third-party that can provide account aggregation and document storage services.

## **Item 5 - Fees and Compensation**

The fees for Financial Planning and Financial Consulting Services are subject to prior negotiation and agreement between the Advisory Client and the Financial Advisor. Fees are generally billed to an

Advisory Client. However, if an Advisory Client maintains a nonqualified brokerage account with Principal Securities, fees can be deducted from that account upon the Advisory Client's request. There may be unfavorable tax consequences as a result of deducting fees from a brokerage account as well as additional charges. See your brokerage account fee schedule for charges that may apply.

Principal Securities allows employers, and other entities such as, unions or associations to pay for a portion or all of the fees associated with Financial Planning and Financial Consulting Services for its employees or members. When an employee or member elects such services, the employee or member becomes an Advisory Client and must sign an Agreement. The fees the entity agrees to pay for services provided to an employee or member will be billed to the entity in accordance with the agreement between the employee or member and Principal Securities.

If included in the Agreement, the Advisory Client could agree to reimburse certain travel time and/or expenses incurred by a Financial Advisor in developing or providing the services.

The Advisory Client must sign the applicable Agreement and receive a copy of Principal Securities' Financial Planning and Consulting Form ADV Part 2A Disclosure Brochure, Brochure Supplement and Form CRS (if applicable).

The Advisory Client, Principal Securities or the Financial Advisor may terminate the Agreement at any time upon written notice to the others. The Advisory Client is responsible for any fees and expenses incurred by Principal Securities and/or the Financial Advisor for the services provided at rates disclosed in the Agreement. Upon termination, if applicable, Principal Securities will refund that portion of fees paid by the Advisory Client that Principal Securities has not earned, if any, based upon the time and effort completed by the Financial Advisor prior to the termination of the agreement. After the Agreement has expired, a renewal Agreement will be required for an Advisory Client to continue using the applicable service.

Principal Securities reserves the right to waive the fees for Advisory Clients maintaining certain levels of assets, products or services, with Principal Securities or affiliates of Principal Securities within the parameters of applicable federal or state laws. Under certain circumstances, such as where administrative or other services are being provided or where additional sales are expected, a portion of the total fee could be waived.

Each Financial Advisor sets his/her rate for Financial Planning and Financial Consulting Services based on educational and business background, professional designations, licensing, geographic location and other relevant factors.

#### *Financial Planning Services*

Financial Advisors quote the fee for financial planning either on an hourly or flat fee basis.

- Under an hourly fee arrangement, the Financial Advisor's hourly planning rate is multiplied by the estimated number of hours the Financial Advisor expects to spend preparing and delivering the financial planning report, but the actual total cost will be based on the actual number of hours the Financial Advisor spends on the planning services.
- Under a flat fee arrangement, the Financial Advisor quotes a fee based on the estimated number of hours that will be spent on the plan as well as the degree of detail and sophistication of the financial plan.



The total fee will not exceed \$15,000, except as approved in advance by Principal Securities. Comparable services may be available from other sources at lesser or no cost.

Depending on the specific services contracted for, the Financial Planning agreement will terminate upon the later of delivery of the financial planning report to the client or the presentation to an outside third party. This information can be found in the term and termination section of the Agreement. For an additional fee, the Advisory Client has the option to renew the Agreement to update the plan at least annually, or as circumstances change.

#### Financial Consulting Services

The Financial Advisor can quote fees for Financial Consulting Services on the following basis:

- An hourly fee based on the Financial Advisor's hourly rate multiplied by the estimated number of hours the Financial Advisor expects to spend consulting with the client, but the actual total cost will be based on the actual number of hours the Financial Advisor spends on consulting services.
- A flat fee based on the estimated number of hours and degree of detail in developing and delivering the services.
- An ongoing subscription fee charged on a monthly basis.

In addition, seminar services can be charged on a per employee basis and financial wellness services can be charged per seminar and, when applicable, per one-on-one meeting.

The total annual fee generally ranges from \$250 to \$15,000 but can be greater if approved in advance by Principal Securities. Comparable services may be available from other sources at lesser or no cost.

Point-in-time services will terminate when the financial consulting services are completed. Subscription services will continue month to month until terminated by one of the parties. This information can be found in the termination section of the Agreement.

If educational seminars are provided, Principal Securities will charge a fee to the seminar attendees, their employer or other organization of which they are a member, or both, as set forth in the Agreement. A portion of those fees may be used to cover the cost of printed materials distributed during the seminar and/or facilities and food expense.

#### **Financial Planning and Consulting Fee Offset**

Principal Securities offers its Financial Advisors higher payouts based on their financial planning and consulting advisory fees. Financial Advisors are offered additional compensation on a quarterly basis when they reach specific fee levels. The additional compensation for reaching specific fee levels presents a conflict of interest because it provides a financial incentive for your Financial Advisor to either charge a higher fee or to recommend financial planning or consultative services that may not be necessary. To mitigate these conflicts of interest Principal Securities reviews the financial planning and consulting services offered to Advisory Clients and monitors the reasonableness of total fees charged.

#### **Conflicts of Interest**

When providing financial planning and consulting services, the Financial Advisor will make more money if they charge you a higher hourly fee or if you purchase more extensive services. Principal Securities monitors for the reasonableness of total fees charged to financial planning and consulting clients.

Advisory Clients are not required to implement any of the recommendations delivered through any of the various planning or consulting services offered by Principal Securities and its Financial Advisors, including those contained in any planning or consulting reports. Similarly, there is no obligation, either before or after receiving Financial Planning or Financial Consulting Services, for the Advisory Client to utilize Principal Securities or the Financial Advisor to purchase any products or services offered by Principal Securities or its affiliated companies (such as insurance, banking, employee benefits or trust services). Except for specific transaction recommendations made to you on the assets held as a participant in an employer-sponsored retirement plan, any specific recommendations made by the Financial Advisor for the purchase of products or services of Principal Securities, Principal Securities affiliates or other financial services companies, or for any particular securities investments are not part of the Financial Planning or Financial Consulting Services.

Should an Advisory Client decide to transact business with Principal Securities or its affiliates, the Advisory Client will pay any applicable charges, commissions, or fees relating to the purchased product or service. A significant portion of these charges or commissions will be paid to the Financial Advisor in the capacity of a Broker-Dealer Representative or as a representative of Principal Securities' affiliate companies or as a Financial Advisor for one of the fee-based account programs under the Investment Adviser. Except when providing advice on your assets held as a participant in an employer-sponsored retirement plan, when recommending the purchase of securities or other financial products other than the fee-based programs offered under the Investment Adviser, Principal Securities and the Financial Advisor will be acting solely in the capacities of a securities broker-dealer and securities salesperson and not in the capacities of an Investment Adviser, investment adviser representative and financial planner, financial advisor or similar term. The change in the role from an investment adviser to a broker-dealer means Principal Securities and its Financial Advisors face conflicts of interests and Principal Securities' interests may be different than those of the Advisory Client.

If the Advisory Client purchases securities or other financial products through Principal Securities, Principal Life Insurance Company ("Principal Life"), Principal National Life Insurance Company or other financial services companies through Principal Securities' Financial Advisor, Principal Securities and the Financial Advisor will be compensated by commissions or fees paid as the result of the purchase, third parties who compensate Principal Securities based on what the Advisory Client buys, or both. This compensation will be separate from the fees under any applicable Financial Planning or Financial Consulting agreement.

At times a Financial Advisor will be functioning in the role of a Broker-Dealer Representative, and the compensation payable to a Broker-Dealer Representative creates a conflict of interest by potentially influencing the Broker-Dealer Representative to recommend one product or service over another. In an effort to mitigate this conflict, Broker-Dealer Representatives are required to recommend only those securities transactions that are in the client's best interest.

In its capacity as a broker-dealer, Principal Securities, through its Broker-Dealer Representatives, provides clients with additional analyses, reports and proposals during the course of discussing possible implementation steps contained in any Financial Planning and Financial Consulting service reports. These analyses, reports and proposals are not part of the Financial Planning or Financial Consulting Services for which the Advisory Client has paid a fee, even though these analyses, reports and proposals likely include information derived from the information gathered to provide the services or contained in any report. In addition, employees of Principal Securities or its affiliates review client data, including client questionnaires, as applicable, to assist the client and his or her Broker-Dealer Representative with

implementation issues or in connection with offering other products or services of Principal Securities. The Advisory Client should not consider any solicitations or recommendations made by the Broker-Dealer Representative for the purchase or sale of a specific security or other financial product as being part of the Financial Planning or Financial Consulting Services, even if the recommendations are based on information gathered when providing those services, except for any specific transaction recommendations made to you on the assets held as a participant in an employer-sponsored retirement plan.

Principal Securities is a member company of the Principal Financial Group, a family of financial services companies. Companies that are affiliated with Principal Securities are involved in various activities relating to the proprietary financial products our financial professionals sell. Those activities include manufacturing the products, serving as principal underwriter for the products, as well as managing the funds, annuities and life insurance products. Because we sell products manufactured by and managed by our affiliates, our financial professionals and the firm have an incentive to sell these products because the affiliated companies benefit financially when the proprietary products are sold.

Proprietary mutual funds pay certain agreed upon fees to affiliates of Principal Securities for fund transfer agent and administration and distribution services. Additionally, the proprietary funds are managed by investment adviser affiliates of Principal Securities. These affiliates receive management fees from the proprietary funds for the investment management services provided.

Compensation Principal Securities receives from its affiliate product manufacturers generally is in line with the amounts Principal Securities receives from unaffiliated product manufacturers. However, there are instances where compensation our affiliates pay us - and indirectly our financial professionals - is higher than unaffiliated product manufacturers pay.

Compensation payable to a Broker-Dealer Representative or Financial Advisor for product sales creates a conflict of interest by potentially influencing the Broker-Dealer Representative or Financial Advisor to favor a particular product or recommendation due to such compensation. To mitigate this conflict, when acting as a Financial Advisor offering Advisory Services, the Financial Advisor is required to act in your best interests. Principal Securities monitors the Financial Advisor's investment advisory activities for compliance with this obligation.

## **Item 6 - Performance-Based Fees and Side-By-Side Management**

Principal Securities does not charge any performance-based fees (fees based on a share of capital gains on or capital appreciation of the assets of a client).

## **Item 7 - Types of Clients**

Principal Securities provides Financial Planning and Financial Consulting Services to individuals, qualified and nonqualified retirement plans, trusts, estates, charitable organizations, and other corporations and business entities. Financial Planning and Consulting Services are generally appropriate for clients who have a need for a holistic review of all, or some part, of their financial situation and provide guidance on ways the client can plan for the future. Financial Planning and Consulting Services for business or business owner clients are generally suitable for Advisory Clients who own or control small to medium sized businesses.

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

Investment and advisory products and services offered or recommended by Principal Securities and its Financial Advisors are subject to risks associated with investing in securities and will not always be profitable. Principal Securities and its Financial Advisors do not guarantee the results of any advice or recommendations, nor do they guarantee that the investment objectives of Advisory Clients will be met in any program, service or product it provides or offers. Investing in securities involves risk of loss that Advisory Clients should be prepared to bear. Past performance is no guarantee of future results.

Advisory Clients are not required to implement any of the suggestions that result from the utilization of the Financial Planning or Financial Consulting Services. Similarly, there is no obligation, either before or after receiving the services for the Advisory Client to utilize Principal Securities or the Financial Advisor to purchase any products or services offered by Principal Securities or from its affiliated companies. However, should the Advisory Client choose to do so, certain conflicts of interest arise between Principal Securities and the Advisory Client. These conflicts are discussed in Item 5 (Fees and Compensation).

### **Financial Planning Services**

The planning reports provide an analysis of financial areas selected by the Advisory Client. Principal Securities uses a variety of sources of information to prepare the reports for Financial Planning, including documents provided by the client, a client questionnaire, government reports and publications, tax and financial planning publications and material prepared by Principal Securities and other member companies of the Principal Financial Group.

The reports contain information generated from research and ratings agencies related to securities already held by the Advisory Client. The source of information for these reports is limited to pre-approved sources other than Principal Securities or the Financial Advisor. Certain historical statistical data, derived from the performance of various indices, may also be provided in order to give Advisory Clients information regarding the relative historical risks and returns of broad asset classes and the general asset allocation models available.

### **Financial Consulting Services**

The Advisory Client will choose the specific areas of focus of the service. The Financial Advisor will gather data, which may include current financial status, goals and objectives, risk tolerance and time horizon, to provide the service. The Financial Advisor may also use other sources of information when providing the service such as various financial publications and materials prepared by Principal Securities or its affiliates.

### **Educational Seminars and Meetings**

Principal Securities provides only impersonal advice through its educational seminars and meetings. Preparation of seminar materials is generally done by publishers and distributors of investment programs who are not affiliated with Principal Securities. Materials provide attendees with investment-related information and depending on the presentation could also include educational material regarding general financial principles that are not investment-related. In the seminars and educational meetings, the Financial Advisor does not provide advice about specific securities or other investments and the information provided is not designed to meet the investment objectives or needs of specific individuals or accounts.

## **Item 9 - Disciplinary Information**

December 2, 2015 – FINRA alleged Principal Securities’ email monitoring processes were inadequate due to a coding error that resulted in a portion of incoming email communications not being timely reviewed. FINRA alleged that this violated NASD Rule 3010 and FINRA Rule 2010. Without admitting or denying the findings, Principal Securities accepted and consented to censure and a fine of \$115,000.

December 21, 2016 – Without admitting or denying the findings, Principal Securities consented to sanctions and to the entry of findings by FINRA that Principal Securities: (1) Failed to establish, maintain, and enforce a reasonable supervisory system related to the use of certain consolidated reports provided to customers by its registered representatives, and (2) failed to enforce its written supervisory procedures regarding two registered representatives in one of its branch offices who failed to retain copies of consolidated reports in accordance with its written supervisory procedures. Principal Securities accepted and consented to censure and a fine of \$125,000.

October 26, 2017 – Without admitting or denying the findings, Principal Securities consented to the sanctions and to the entry of findings that for at least three years, its system for supervising additions to existing variable annuities was not reasonably designed to ensure that it complied with applicable securities law and rules, including those governing suitability.

March 11, 2019 – Principal Securities self-reported to the Securities and Exchange Commission (SEC) as part of the SEC’s Share Class Selection Disclosure Initiative (SCSD) possible violations of the Investment Advisers Act of 1940 (Advisers Act) relating to the firm’s failure to make necessary disclosures concerning mutual fund share class selection. Without the firm admitting or denying the findings, on March 11, 2019, the SEC entered an order against the firm alleging breaches of fiduciary duty and inadequate disclosures in connection with the firm’s mutual fund share class selection practices and fees it received pursuant to Rule 12b-1 under the Investment Company Act of 1940. At times during the period January 1, 2014, to December 31, 2018, the firm purchased, recommended or held advisory clients’ mutual fund share classes that charged 12b-1 fees instead of lower-cost share classes of the same funds for which the clients were eligible. The firm received 12b-1 fees in connection with these investments. The firm failed to disclose in its form ADV or otherwise the conflicts of interest related to its receipt of 12b-1 fees and/or its selection of mutual fund share classes that pay such fees.

The firm was censured and ordered to cease and desist from committing or causing any violations and any future violations of Section 206(2) and 207 of the Advisers Act. The firm was also required to pay disgorgement and prejudgment interest to affected investors totaling \$1,764,624.26, as well as to take other remedial actions.

## **Item 10 - Other Financial Industry Activities and Affiliations**

Principal Securities’ primary business is that of a securities broker-dealer and Registered Investment Adviser. Principal Securities’ other financial activities primarily include the sale of mutual funds, variable annuity, indexed annuities and variable life insurance contracts but also includes the sale of unit investment trusts, direct participation programs, and general securities (as an introducing broker to its clearing firm, Fidelity Clearing & Custody Solutions (“FCCS”), on a fully disclosed basis). Principal Securities representatives receive compensation for the sale of these investment products and receive additional compensation from the sale of other products outside of their securities activities, such as sales of fixed annuities and life insurance.

Principal Funds Distributor, Inc., is the principal underwriter for an investment company (Principal Funds, Inc.). Principal Asset Management is the manager of Principal Funds, Inc., Principal Exchange-Traded Funds, and other products created by affiliates of Principal Securities ("Proprietary Products"). Shares of Proprietary Products sold in connection with Principal Securities' advisory products pose certain conflicts of interest. Principal Securities serves as distributor for the variable life and variable annuity contracts issued by Principal Life and Principal National Life Insurance Company. Principal Trust Company generally serves as trustee or custodian for retirement plans utilizing Principal Life Insurance Company as the plan's recordkeeper. Banking products are offered through Principal Bank. Principal Securities is affiliated with Principal Funds Distributor, Inc., Principal Life Insurance Company, Principal National Life Insurance Company, Principal Trust Company, Principal Bank and Principal Asset Management, and all are subsidiaries of Principal Financial Services, Inc. Please see Principal Securities, Inc. Form CRS, the Financial Advisor's Form ADV Part 2B and [PrincipalSecurities.com](http://PrincipalSecurities.com) for additional details regarding Principal Securities role as a Broker-Dealer and the Principal Securities representative's role as a Broker-Dealer Representative when selling securities products of affiliates.

The inclusion of Proprietary Products in our Principal Securities Advisory Programs, advice provided on shares of Proprietary Products, and on Principal Life Insurance Company or Principal National Life Insurance Company policies and retirement plan accounts present conflicts of interest. Such conflicts are discussed in Item 5 (Fees and Compensation).

## **Item 11 - Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

### **Code of Ethics**

Principal Securities has implemented a Code of Ethics ("Code") pursuant to SEC Rule 204A-1. A complete copy of the Code is available upon request. The purpose of this Code is to prevent or mitigate conflicts of interest that exist, or appear to exist, and to prevent any violations of applicable laws, when Principal Securities' Officers, Directors, Investment Adviser Representatives and certain employees who meet the SEC's definition of "Access Person" own or engage in transactions involving securities.

Central aspects of the Code include:

- the requirement that all reportable personal security transactions be conducted in such a manner as to avoid any actual or potential conflict of interest or abuse of an individual's position of trust and responsibility
- fiduciary principles that include the requirement to place the interests of Advisory Clients first and maintain in confidence information concerning the security holdings of those customers; and
- the duty to comply with applicable federal and state securities laws, including the prohibitions against insider trading and market manipulation.

Each Access Person is provided with a copy of the Code and any amendment and must certify that they have read and will comply with the Code including any amendments.

In general, the Code also requires Access Persons to disclose all accounts in which they will have beneficial ownership in certain reportable securities. When a person becomes an Access Person or prior to being released as an Investment Adviser Representative, those persons must furnish a copy of an initial holdings report on any such accounts and reportable securities. A copy of an account statement issued by or an electronic data transmission from the firm where the account is maintained can satisfy

this requirement. Access Persons must also furnish copies of quarterly transaction reports and annual holding reports on reportable securities. Copies of quarterly and annual statements issued by or electronic data transmissions from the firm where the account is maintained can satisfy this requirement. These records are then reviewed as appropriate.

### **Principal Securities Role**

Principal Securities is a registered broker-dealer and, through its Broker-Dealer Representatives, transacts business in a variety of securities products including mutual funds, stocks, bonds, CDs, etc. In such role, Principal Securities offers securities products, including those issued by its affiliates or distributed by Principal Securities to Advisory Clients. Principal Securities will receive commissions on the sales of these products to Advisory Clients. Principal Securities ensures that Broker-Dealer Representatives who also act as Financial Advisors clearly disclose their dual role in all communications with the public by reviewing all advertising and sales literature, including business cards and letterhead as well as requiring that this Firm Disclosure Brochure be delivered to Advisory Clients and Principal Securities, Inc. Form CRS be delivered to the Advisory Clients who are retail customers under the Regulation Best Interest definition.

### **Item 12 - Brokerage Practices**

Principal Securities does not receive research or other products or services other than execution from a broker-dealer or third party in connection with client securities transactions ("soft dollar benefits").

### **Item 13 - Review of Accounts**

Financial Advisors contact Advisory Clients with varying frequency, depending on the specific services agreed upon in the relevant Advisory Client agreement. Financial Planning reports are reviewed by supervisory personnel after creation. Financial Advisors review the financial plan with their clients at or after delivery.

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

#### **Transition Assistance**

Principal Securities provides some of our Financial Advisors various forms and amounts of transition assistance to encourage the Financial Advisor to transition to our firm and to help cover associated costs. Such transition assistance can include a lump sum payment, coverage of certain fees (such as registration fees, termination fees associated with moving accounts, and technology service fees), or both. Some other Financial Advisors receive transition assistance in the form of a loan and forgivable promissory note. The promissory notes vary in amount and terms, but the loan amount is largely based on the Financial Advisor's anticipated production. Portions of the loaned amount are forgiven on an annual basis if the Financial Advisor remains affiliated with the firm and meets the minimum production requirement set forth in the note. The minimum production requirement is based on commissions and fees paid for the sale of securities products and advisory services but does not include the sale of insurance or annuity contracts. If your Financial Advisor received a forgivable loan and has an outstanding loan balance, your Financial Advisor has an incentive to recommend that you purchase products and services that count toward the minimum production requirement for forgiveness, purchase products and services that result in higher compensation, and engage in other fee-generating activities that will assist your Financial Advisor in meeting the minimum production requirements for all

or a portion of the outstanding loan balance to be forgiven. This conflict is heightened as a Financial Advisor approaches the deadline for meeting the annual qualification target for loan forgiveness, particularly in the final year of the note.

### **Cash/Non-Cash Compensation and Promoters**

Principal Securities, its Financial Advisors, and affiliates of Principal Securities enter into sponsorship or other marketing and promoter arrangements with third parties which include cash or non-cash compensation being paid to the third party individuals or entities. While this compensation is typically a flat dollar amount not directly tied to any resulting sale or fee revenue, there are certain scenarios where cash compensation is paid as a percentage of the advisory fee or commission charged to customers as permitted by applicable regulation. Some entities that are eligible for percentage of revenue share are banks, credit unions, savings institutions, and other Registered Investment Advisors. As part of these arrangements, the third parties could provide promotion or endorsement of Principal Securities products and services, Principal Securities' Financial Advisors, or affiliates of Principal Securities. The cash or non-cash compensation received creates incentive to the third party to promote and/or endorse Principal Securities, its Financial Advisors and its affiliates. This financial incentive creates a conflict of interest. As a control to address this conflict, Principal Securities has implemented policies and procedures to reasonably review arrangements where a third party receives compensation and intends to distribute communications that promote or endorse Principal Securities' Registered Investment Adviser's products or services or the investment advisory services offered by its Financial Advisors. These policies are also designed to comply with the books and records requirements under Rule 204-2, and the disclosure requirements under Rule 206(4)-1, under the Investment Advisers Act of 1940.

### **Other Compensation**

Principal Securities has entered into revenue sharing arrangements with a limited number of sponsor companies. These revenue sharing payments are in addition to commissions, 12b-1 fees, and any other fees and expenses. For a list of investment companies that Principal Securities currently has revenue sharing arrangements with, please see PSI Third-Party Payments, available at [www.principalsecurities.com](http://www.principalsecurities.com). Principal Funds Distributor, Inc., an affiliate of Principal Securities and the principal underwriter for Principal Funds, Inc., has entered into a revenue sharing arrangement with Principal Securities. Revenue sharing arrangements, including that between Principal Securities and Principal Funds Distributor, Inc., create a conflict of interest whereby Principal Securities is incentivized to offer and sell these companies' products.

Principal Securities receives payments from certain product sponsors for making those sponsors' products available on Principal Securities' platform. Principal Securities also has relationships with a number of third parties from which we receive compensation (beyond commissions) when we recommend or sell certain investments. Some of the third-party payments and revenue sharing Principal Securities receives include 12b-1 fees, marketing support, distribution, and stockholder servicing fees. The payments from product sponsors create conflicts of interest as they incentivize Principal Securities to select products for its platform for which it will receive such sponsor payments. To mitigate this conflict of interest, Principal Securities performs initial and ongoing due diligence of products proposed to be included on the firm's product platform. Principal Securities has a Conflicts Committee to identify conflicts and help with mitigation efforts related to the conflicts. Principal Securities also has a Product Committee that reviews products before they are put on the firm's platform. We disclose these conflicts to you so that you can make fully informed decisions on what action to take.



Financial Advisors who meet certain sales thresholds are invited to educational recognition trips and events hosted by Principal Life and/or its affiliates. Qualification for these trips and events is based on the level of overall sales of products. This creates a conflict in that Financial Advisors have an incentive to sell more products in order to qualify for the trips and events. To mitigate this conflict, the qualification criteria are designed to not favor one product over any other product and non-proprietary products are treated the same as proprietary products.

Additionally, some Financial Advisors may be invited to attend due diligence events with outside investment firms. These events and trips create a conflict of interest as they incentivize the sale of certain companies' products. To mitigate such conflicts, all events and trips must be reviewed by Principal Securities to ensure reasonableness. Principal Securities also has a dedicated team that reviews transactions to make sure they are in clients' best interests and it has other surveillance tools to detect potential problems. We disclose these conflicts to you so that you can make fully informed decisions on what action to take.

Principal Securities also rewards Financial Advisors who meet certain production goals by application count of any new business within a calendar year through award of a gift card for \$100 to the Principal Corporate Store. As noted above, Principal Securities mitigates this conflict by reviewing transactions to make sure they are in the clients' best interests and using surveillance tools to detect potential problems.

Principal Securities receives direct and indirect reimbursements from certain sponsors or platform providers including but not limited to marketing reimbursements, meals and the cost of presentation facilities for Financial Advisors to attend sales presentations or education events. These reimbursements give Principal Securities an incentive to recommend to a Financial Advisor the use of one sponsor or provider over another.

Principal Securities offers sponsorship opportunities that allow approved product sponsor companies and technology vendors to financially support and participate in conferences, meetings, and other events held for Principal Securities' financial professionals. Participating companies have greater opportunity to market to and educate Principal Securities' financial professionals on their products and services as compared to non-participating companies. Additionally, our financial professionals sometimes receive promotional items from participating companies, such as pens, notebooks, bags and other miscellaneous items. As a result of the financial support it receives for these events, Principal Securities has an incentive to continue to offer and utilize participating companies' products and services. For a list of product sponsor companies and technology vendors that Principal Securities has received sponsorship payments from, please see PSI Third-Party Payments, available at [www.principalsecurities.com](http://www.principalsecurities.com).

## **Item 15 - Custody**

Principal Securities does not take custody of any Advisory Client assets when providing Financial Planning or Financial Consulting Services.

## **Item 16 - Investment Discretion**

Principal Securities and its Financial Advisors do not have investment discretion when providing Financial Planning or Financial Consulting Services.

**Item 17 - Voting Client Securities**

As a matter of firm policy and practice, Principal Securities does not have any authority to and does not vote proxies on behalf of Advisory Clients. Clients retain the responsibility for receiving and voting proxies for any and all securities maintained in client portfolios.

**Item 18 - Financial Information**

Principal Securities does not allow prepayment of fees in excess of \$1200 per client six months or more in advance of services rendered. Principal Securities has no financial issues that would be reasonably likely to impair its ability to meet contractual commitments to clients. Principal Securities has not been the subject of a bankruptcy proceeding.