

NASD
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. ##
20050001786-01

RECEIVED
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REGISTRATION & DISCLOSURE

TO: Department of Market Regulation
NASD

RE: Cambridge Investment Research, Inc. Respondent
Broker-Dealer
CRD No. 39543

Pursuant to Rule 9216 of NASD Code of Procedure, Cambridge Investment Research, Inc. (the "firm") submits this Letter of Acceptance, Waiver and Consent ("AWC") for the purpose of proposing a settlement of the alleged rule violations described in Part II below. This AWC is submitted on the condition that, if accepted, NASD will not bring any future actions against the firm alleging violations based on the same factual findings.

The firm understands that:

1. Submission of this AWC is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by NASD's Department of Market Regulation and National Adjudicatory Council ("NAC") Review Subcommittee or Office of Disciplinary Affairs ("ODA"), pursuant to NASD Rule 9216;
2. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against the firm; and
3. If accepted:
 - a. this AWC will become part of the firm's permanent disciplinary record and may be considered in any future actions brought by NASD or any other regulator against the firm;
 - b. this AWC will be made available through NASD's public disclosure program in response to public inquiries about the firm's disciplinary record;
 - c. NASD may make a public announcement concerning this agreement and the subject matter thereof in accordance with NASD Rule 8310 and IM-8310-3; and
 - d. the firm may not take any action or make or permit to be made any public statement, including in regulatory filings or otherwise, denying, directly or indirectly, any finding in this AWC or create

the impression that the AWC is without factual basis. Nothing in this provision affects the firm's testimonial obligations or right to take legal or factual positions in litigation or other legal proceedings in which NASD is not a party.

The firm also understands that its experience in the securities industry and disciplinary history may be factors that will be considered in deciding whether to accept this AWC. That experience and history are as follows:

The firm has been a member of NASD since December 11, 1995 and its registration remains in effect. The firm has no relevant disciplinary history.

I.

WAIVER OF PROCEDURAL RIGHTS

The firm specifically and voluntarily waives the following rights granted under NASD's Code of Procedure:

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

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

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

II.

ACCEPTANCE AND CONSENT

In connection with 20050001786 (MRD200449225), the Market Regulation Department staff ("staff") conducted a review of the firm's compliance with the Trade Reporting and Compliance Engine ("TRACE") reporting requirements during the period July 1, 2004 through September 30, 2004.

- A. The firm hereby accepts and consents, without admitting or denying the findings, and solely for the purposes of this proceeding and any other proceeding brought by or on behalf of NASD, or to which NASD is a party, prior to a hearing and without an adjudication of any issue of law or fact, to the entry of the following findings by NASD:
1. The firm failed to report to TRACE 80 transactions in TRACE-eligible securities executed on a business day during TRACE system hours within 45 minutes of the time of execution. The conduct described in this paragraph constitutes separate and distinct violations of NASD Marketplace Rule 6230(a).
 2. The firm failed to report to TRACE the correct time of trade execution for 93 transactions in TRACE-eligible securities. The conduct described in this paragraph constitutes separate and distinct violations of NASD Marketplace Rule 6230(c)(8).
 3. The firm reported to TRACE 105 transactions in TRACE-eligible securities that it was not required to report. The conduct described in this paragraph constitutes separate and distinct violations of NASD Marketplace Rule 6230(e).
 4. The firm's supervisory system did not provide for supervision reasonably designed to achieve compliance with respect to the applicable securities laws and regulations, and the Rules of NASD, concerning TRACE reporting. Specifically, the firm's supervisory system did not include written supervisory procedures providing for: (1) the identification of the person(s) responsible for supervision with respect to the applicable rules; (2) a statement of the supervisory step(s) to be taken by the identified person(s); (3) a statement as to how often such person(s) should take such step(s); and (4) a statement as to how the completion of the step(s) included in the written supervisory procedures should be documented. The conduct described in this paragraph constitutes a violation of NASD Conduct Rules 2110 and 3010.

- B. The firm also consents to the imposition, at a maximum, of the following sanctions:

A censure and fine of \$12,500 comprised of a \$7,500 fine for the TRACE reporting violations, a \$5,000 for the deficient supervisory procedures and an undertaking to revise the firm's written supervisory procedures with respect to the areas described in paragraph four. Within 30 business days of acceptance of this AWC by the NAC, a registered principal of the Respondent shall submit to the **COMPLIANCE ASSISTANT, LEGAL SECTION, MARKET REGULATION DEPARTMENT, 9509 KEY WEST AVENUE, ROCKVILLE, MD 20850**, a signed, dated letter, providing the following information: (1) a reference to this matter; (2) a representation that the firm has revised its written supervisory procedures to address the deficiencies described in this paragraph four; and, (3) the date the revised procedures were implemented.

The sanctions imposed herein shall be effective on a date set by NASD staff.

III.

OTHER MATTERS

- A. The firm understands that it may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. The firm understands that it may not deny the charges or make any statement that is inconsistent with the AWC in this Statement. This Statement does not constitute factual or legal findings by NASD, nor does it reflect the views of NASD or its staff.
- B. The firm agrees to pay any monetary sanctions imposed on it upon notice that this AWC has been accepted and that such payments are due and payable, and has attached an Election of Payment form showing the method by which the firm proposes to pay any fine imposed.
- C. The firm specifically and voluntarily waives any right to claim that the firm is unable to pay, now or at any time hereafter, any monetary sanction imposed in this matter.

5/17/07

Respondent
Cambridge Investment Research,
Inc.

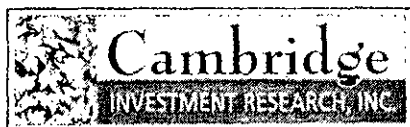
By: Marcia L Martin
Name: Marcia L Martin
Title: CCO

Counsel for Respondent

6/6/07
Date

Thomas R. Gira
Thomas R. Gira
Executive Vice President
Department of Market Regulation

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May 15, 2007

2007 MAY 17 P 12:31

NASD Market Regulation
Ms. Lora W. Alexander
9509 Key West Avenue
Rockville, MD 20850

Re: Letter of Acceptance, Waiver, and Consent Exam or Investigation No. 20050001786
(MRD2004449225)

Dear Ms. Alexander:

This letter is in response to your correspondence dated May 3, 2007 with respect to the Letter of Transmittal of AWC. Please find enclosed an executed Letter of Acceptance, Waiver and Consent ("AWC"), in response to resolving the charges currently under consideration by the NASD's Department of Market Regulation.

Cambridge is also submitting a Statement of Corrective Action demonstrating the measures employed to reasonably correct the problem and prevent recurrence. The firm has implemented multiple procedural and operational enhancements to substantively address and avert future occurrence. These enhancements include a comprehensive Training program, significant revisions to the firms written supervisory procedures ("WSP"), improvements to the Internal Reporting system, retention of an independent third-party consultant, and straight through processing of TRACE eligible transactions.

Cambridge has developed and instituted a robust Training program designed to curtail instances of late and inaccurate TRACE reporting. Comprised of several components, the primary impetus of this program is to thoroughly train Trading Department associates. One major component of this program involved training existing staff regarding TRACE reporting requirements and procedures. Further, new employees added to the Trading Department are subject to intensive training that focuses on fixed income trading, internal procedures, and regulations related to TRACE.

Another component included within this program has been creation of reference guides for Trading Department associates. Information contained within these reference guides conceptually encompasses procedural and educational materials created to reinforce associates comprehension of TRACE requirements. Such materials are readily accessible to all employees and located on the company intranet.

One final, but important, component of the Training program pertains to Registered Representatives. Cambridge has held teleconferences in correlation to fixed income trading and incorporates the firms TRACE reporting procedures as an element.

Moreover, all new Registered Representatives actively engaged in fixed income trading are required to participate in TRACE specific training.

It is important to note that Cambridge considers the Training Program to be iterative and not static. Therefore, to ensure the program adheres to TRACE requirements, the firm periodically reviews TRACE affiliated rules and, as necessary, will revise the scope of this program.

Cambridge has made significant revisions and modifications to the firm Written Supervisory Procedures ("WSP"). The revised ("WSP") explicitly provide for: (1) the identification of the person(s) responsible for supervision with respect to the applicable rules; (2) a statement of the supervisory step(s) to be taken by the identified person(s); (3) a statement as to how often such person(s) should take such step(s); and (4) a statement as to how the completion of the step(s) included in the written supervisory procedures should be documented. As documented by our correspondence, dated 12/12/2005, the firm has previously provided copies of the revisions to Market Regulation.

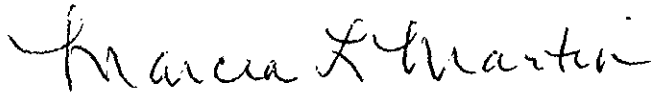
A further enhancement Cambridge has made, so as to avoid a similar situation, consists of improvements to the Internal Reporting system. Registered Principals routinely conduct a daily review to ensure all TRACE eligible securities are entered into TRACE. When it's determined a transaction wasn't reported as necessitated by TRACE, Trading Management is required to escalate this issue to the AVP of Operations. Additionally, the firm has developed a detailed monthly report, which aggregates the number of trades, monthly TRACE numbers, corrections, and identifies the responsible party. This report is generated on a monthly basis and provided for review to the VP of Operations by the 10th of the month. Subsequently, after thorough review, the VP of Operations will escalate information, to Chief Compliance Officer, as needed to address any necessary internal changes.

An added precaution Cambridge has taken to minimize TRACE deficiencies is the hiring of an independent third-party consultant. The consultant conducted a diligent review of both the firm's Written Supervisory Procedures ("WSP") and TRACE reporting process. Upon completion of this review and analysis, the consultant recommended modifications to the ("WSP") and TRACE Reporting process. Predicated on the consultant's recommendations, the firm has since applied these suggestions to the ("WSP") and TRACE reporting process. As a result, applying the recommendations should serve to reasonably prevent further TRACE deficiencies.

Lastly, Cambridge has initiated Straight through processing of TRACE eligible transactions. Consequently, trades are reported directly to Cambridge's clearing firms thereby preventing occurrences of TRACE reporting issues. The firm will fully migrate to and systematically implement Straight through processing of TRACE eligible securities by the end of second quarter, 2007. This should enable the firm, in conjunction with other components of the corrective action plan, to avoid future TRACE problems.

As evidenced in this Statement of Corrective action, Cambridge has noted the NASD's findings and implemented corrective procedures as a result. The firm respectfully requests the NASD to consider the merit of these corrective actions.

Sincerely,

A handwritten signature in black ink, appearing to read "Marcia L. Martin". The signature is fluid and cursive, with the first name "Marcia" being more prominent than the last name "Martin".

Marcia L. Martin
Chief Compliance Officer
Cambridge Investment Research, Inc.

This Corrective Action is submitted by the Respondent. It does not constitute factual or legal findings by NASD, nor does it reflect views of the NASD, or its staff.