

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2009019590503**

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

RE: cfd Investments, Inc. Respondent
CRD No. 25427

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, cfd Investments, 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 below. This AWC is submitted on the condition that, if accepted, FINRA will not bring any future actions against the Firm alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- 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 FINRA, or to which FINRA is a party, prior to a hearing and without an adjudication of any issue of law or fact, to the entry of the following findings by FINRA:

BACKGROUND

Cfd Investments, Inc. has been a registered broker-dealer and member of FINRA since January 16, 1990. Headquartered in Kokomo, Indiana, cfd engages in a general securities business. The Firm has approximately 150 branches and 190 registered representatives.

RELEVANT DISCIPLINARY HISTORY

The Firm has no disciplinary history.

OVERVIEW

Between January 2001 and August 2009 (the "relevant period"), the Firm failed to adequately supervise former registered representative John Haeffele, who stole approximately \$409,000 from a customer's accounts that held direct application mutual funds purchased through the Firm. The customer was a trust established to provide financial support for a severely disabled beneficiary (the "Trust"). Haeffele converted the Trust's funds by redeeming

the mutual fund shares owned by the Trust and transferring the proceeds to accounts he controlled away from the Firm.

The Firm was aware of red flags relating to Haeffele that taken as a whole would have led it to investigate, and discover his conversion of Trust assets. Among other things, Haeffele served both as trustee and registered representative for the Trust, which raised a conflict of interest and allowed him to receive Trust account statements. He also began redeeming mutual fund shares held by the Trust shortly after purchase, which raised suitability concerns because it was inconsistent with the Trust's intent in investing in mutual funds. The Firm failed to adequately respond to these and other red flags. As such, the Firm failed to supervise Haeffele in violation of NASD Rules 3010(a) and 2110, and FINRA Rule 2010.

The Firm's supervisory failures resulted, in part, from its deficient supervisory systems and written procedures for monitoring direct application mutual fund redemptions. The Firm had two means of reviewing such redemptions – dealer statements and transaction blotters created by representatives – yet the Firm failed to utilize either means to review this activity. Moreover, the Firm lacked written procedures requiring the review of dealer statements. By failing to maintain adequate supervisory systems and procedures, the Firm violated NASD Rules 3010(a) and (b) and 2110, and FINRA Rule 2010.

Further, between June 2005 and June 2009, the Firm failed to maintain daily blotters that contained all direct application mutual fund redemptions, in violation of Section 17(a) of the Exchange Act, Rules 17a-3 and 17a-4, NASD Rules 3110 and 2110, and FINRA Rule 2010.

FACTS AND VIOLATIVE CONDUCT

1. The Firm Failed to Supervise Haeffele

During the relevant period, the Firm failed to adequately respond to red flags relating to Haeffele that taken together would have caused it to investigate and discover Haeffele's conversion.

In particular, the Firm was aware that Haeffele served both as trustee and as broker to the Trust, which itself posed a potential conflict of interest. Moreover, because Haeffele had identified himself as client and representative, only Haeffele received account statements, which heightened the risk that he could (as he did) hide his activity from the beneficiary and others associated with the Trust.

In addition, starting in 2001 Haeffele began liquidating mutual funds held by the Trust as soon as six months after purchase. The Firm had access to information about these transactions and therefore could have discovered Haeffele's activity. This practice continued for five years until the accounts were essentially worthless. Such liquidations raised suitability concerns and, in certain cases, caused the Trust to incur contingent deferred sales charges. The steady stream of liquidations should have resulted in additional scrutiny of the Trust's activity, and raised the possibility that Haeffele was converting Trust assets.

The Firm was also confronted by additional circumstances relating to Haeffele that, in totality, should have resulted in scrutiny of his activities. Haeffele repeatedly violated Firm procedures, including by repeatedly failing to submit transaction and correspondence blotters to the Firm, suggesting that he was seeking to avoid detection. The Firm was also aware from its review of representatives' production levels that Haeffele was earning very little from the Firm (as little as \$5,600 in 2002) during the period that he was converting Trust assets.

The Firm failed to adequately respond to the red flags and irregularities described above. The Firm did not subject the Trust to additional scrutiny or place Haeffele under heightened supervision, despite the conflict of interest posed by Haeffele's dual roles. The Firm did not address Haeffele's repeated failures to submit transaction and correspondence blotters. Critically, the Firm failed to respond to the uninterrupted pattern of mutual fund redemptions over a five-year period in the Trust's accounts.

By failing to adequately respond to red flags relating to Haeffele that, if properly investigated, would have led the Firm to discover Haeffele's conversion, cfd violated NASD Rules 3010(a) and 2110, and FINRA Rule 2010.

2. The Firm Had Inadequate Systems and Procedures to Supervise Mutual Fund Redemptions

Between January 2001 and June 2009, the Firm lacked adequate systems and procedures to monitor direct application mutual fund redemptions.¹ The Firm had two means of reviewing redemptions of direct application mutual funds, but did not use either to adequately review these transactions. First, during the relevant period, the Firm received statements from investment companies listing all mutual fund redemptions. The Firm, however, failed to properly assign responsibility for review of these statements and, as a result, no one regularly reviewed the mutual fund redemptions. Second, mutual fund redemptions were also required by the Firm to be listed by registered representatives on transaction blotters, which were also required to be submitted for review. Many representatives consistently failed to submit blotters to the Firm, and therefore the Firm could not have conducted a complete review of mutual fund redemptions by relying on the blotters. Accordingly, the Firm did not adequately review direct application mutual fund redemptions.

The Firm also failed to maintain adequate written procedures for the review of direct application mutual fund redemptions. In particular, the Firm's procedures did not require review of statements provided by direct application mutual fund issuers, which listed redemptions.

By failing to maintain an adequate supervisory system and written procedures to oversee its direct application mutual fund business, cfd violated NASD Rules 3010(a) and (b) and 2110, and FINRA Rule 2010.

¹ In direct application mutual funds, the fund shares are sold through the broker-dealer (here, cfd) but held directly with the mutual fund issuers. During the relevant period, Firm representatives, including Haeffele, placed redemption orders for such funds by contacting the mutual fund issuers directly.

3. The Firm Failed to Maintain Blotters Containing All Direct Application Mutual Fund Redemptions

Between June 2005 and June 2009, numerous Firm representatives failed to provide the Firm with blotters they created and maintained listing each purchase and sales transaction, including direct application mutual fund transactions, as required by the Firm's policies and procedures. For example, Haeffele did not create or maintain any transaction blotters during this time period. Through audit reports and internal reviews, the Firm knew that representatives including Haeffele failed to create or maintain transaction blotters, and did not take sufficient action to rectify the problem. Moreover, while the Firm separately maintained blotters for its direct application mutual fund business, the blotters did not contain all redemptions of direct application mutual funds.

By failing to maintain blotters that contained all direct application mutual fund redemptions between June 2005 and June 2009, the Firm violated Section 17(a) of the Exchange Act, Exchange Act Rule 17a-3 and 17a-4 thereunder, NASD Rules 3110 and 2110, and FINRA Rule 2010.

B. The Firm consents to the imposition of the following sanctions:

- censure; and
- a fine of \$100,000.

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

The Firm specifically and voluntarily waives any right to claim that it is unable to pay, now or at any time hereafter, the monetary sanction imposed in this matter.

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

II.

WAIVER OF PROCEDURAL RIGHTS

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

- A. To have a Complaint issued specifying the allegations against it;
- B. To be notified of the Complaint and have the opportunity to answer the allegations in writing;

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

Further, 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 FINRA Rule 9143 or the separation of functions prohibitions of FINRA Rule 9144, in connection with such person's or body's participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including its acceptance or rejection.

III.

OTHER MATTERS

The Firm understands that:

- A. Submission of this AWC is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by the NAC, a Review Subcommittee of the NAC, or the Office of Disciplinary Affairs ("ODA"), pursuant to FINRA Rule 9216;
- B. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against the Firm; and
- C. If accepted:
 - 1. this AWC will become part of the Firm's permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against the Firm;
 - 2. this AWC will be made available through FINRA's public disclosure program in response to public inquiries about the Firm's disciplinary record;
 - 3. FINRA may make a public announcement concerning this agreement and the subject matter thereof in accordance with FINRA Rule 8313; and

4. 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. The Firm may not take any position in any proceeding brought by or on behalf of FINRA, or to which FINRA is a party, that is inconsistent with any part of this AWC. Nothing in this provision affects the Firm's: (i) testimonial obligations; or (ii) right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party.

- D. The Firm 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 FINRA, nor does it reflect the views of FINRA or its staff.

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

7/22/2013
Date (mm/dd/yyyy)

cfd Investments, Inc
Respondent

cfd Investments, Inc.

By: Brent Owens
Brent A. Owens, President

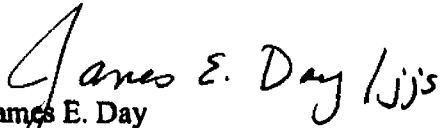
Reviewed by:

Paul D. Vink
Paul D. Vink
Counsel for Respondent
Bose McKinney & Evans LLP
111 Monument Circle, Suite 2700
Indianapolis, IN 46204
(317) 684-5422

Accepted by FINRA:

8/22/13
Date

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


James E. Day
Chief Counsel and Vice President
FINRA Department of Enforcement
15200 Omega Drive, 3rd Floor
Rockville, MD 20850
Telephone: 301-258-8520
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STATEMENT OF CORRECTIVE ACTION SUBMITTED BY
CFD INVESTMENTS, INC. IN CONNECTION WITH THE
FINANCIAL INDUSTRY REGULATORY AUTHORITY LETTER OF
ACCEPTANCE, WAIVER AND CONSENT NO. 20091950503

When cfd Investments, Inc. learned in 2009 of John Haeffele's theft of trust funds, it immediately instituted a change in its policy relating to financial advisers serving in the capacity of a trustee. The new policy requires that a financial adviser not serve in the capacity of a trustee for any trust account unless the grantor of the account is an immediate family member (spouse, child, parent or sibling). Furthermore, even under these circumstances, the grantor and all beneficiaries of the trust are required to sign a statement acknowledging that the financial adviser is serving in the role of a trustee, and that cfd Investments, Inc. is not responsible for the actions of the financial adviser when serving in the role of a trustee for the trust.

Additionally, in June of 2009, prior to any FINRA investigation, the firm adopted procedures for a direct to issuer order ticket, which is designed to record and track orders that a financial adviser places with a fund company directly. This applies to all financial advisers regardless of whether the financial adviser is also acting as a trustee. This procedure was designed to evidence the approval of transactions conducted directly with fund companies, and to provide for more effective oversight of direct way business.

This Corrective Action Statement does not constitute factual or legal findings by FINRA, nor does it reflect the views of FINRA or its staff.