

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2013038730901**

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

RE: Cambridge Investment Research, Inc. (BD No. 39543),
Respondent

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Cambridge Investment Research, Inc. ("CIR" or 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 CIR alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. Respondent 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

CIR has been a member of FINRA since February 1995. The Firm maintains its main office in Fairfield, Iowa. CIR has approximately 3,400 registered persons and maintains approximately 1,700 branch offices.

RELEVANT DISCIPLINARY HISTORY

CIR has no relevant formal disciplinary history.

OVERVIEW

From January 4, 2008 to November 29, 2013 (the "Relevant Period"), CIR failed to apply "rollover" and exchange discounts (collectively "sales charge discounts") to certain customers with eligible purchases of unit investment trusts ("UITs") in violation of NASD Rule 2110 and FINRA Rule 2010.¹ In addition, CIR failed to establish, maintain and enforce a supervisory system and written supervisory procedures ("WSPs") reasonably designed to ensure that customers received sales

¹ NASD Rule 2110 was superseded by FINRA Rule 2010 effective December 15, 2008.

charge discounts on all eligible UIT purchases in violation of NASD Rules 3010 and 2110 and FINRA Rule 2010.

FACTS AND VIOLATIVE CONDUCT

A UIT is a type of Investment Company that issues securities, typically called "units," representing undivided interests in a relatively fixed portfolio of securities. UITs are generally issued by a sponsor that assembles the UIT's portfolio of securities, deposits the securities in a trust, and sells units of the UIT in a public offering. UIT units are redeemable securities that are issued for a specific term, and entitle an investor to receive his or her proportionate share of the UIT's net assets on redemption or at termination.

UIT sponsors offer investors a variety of ways to reduce the sales charge fees charged on a purchase. For example, UIT sponsors often offer sales charge discounts on UIT purchases that are funded using redemption or termination proceeds from another UIT during the initial offering period.

On March 31, 2004, FINRA issued Notice to Members 04-26, *Unit Investment Trust Sales*, reminding broker-dealers that they should develop and implement procedures to ensure customers receive appropriate sales charge discounts for UITs. The Notice further stated that UIT transactions must take place "on the most advantageous terms available to the customer" and that it is the firm's responsibility to "take appropriate steps to ensure that they and their employees understand, inform customers about, and apply correctly any applicable price breaks available to customers in connection with UITs."

During the Relevant Period, CIR failed to identify and apply sales charge discounts to certain customers with eligible purchases of UITs. Specifically, CIR failed to apply sales charge discounts to 1,630 eligible UIT purchases resulting in customers paying excessive sales charges of \$423,774.27. CIR has paid restitution to all affected customers. Based on the foregoing, CIR violated NASD Conduct Rule 2110 and FINRA Rule 2010.

Also during the Relevant Period, CIR failed to establish, maintain and enforce a supervisory system and WSPs reasonably designed to ensure customers received sales charge discounts on all eligible UIT purchases. The Firm relied primarily on its registered representatives to ensure that customers received appropriate UIT sales charge discounts, despite the fact that the Firm did not effectively inform and train representatives and their supervisors to identify and apply such sales charge discounts. Based on the foregoing, CIR violated NASD Conduct Rules 3010(a) and (b) and 2110 and FINRA Rule 2010.

B. Respondent consents to the imposition of the following sanctions:

- A Censure; and
- Fine of \$250,000.

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

Respondent 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

Respondent 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, Respondent specifically and voluntarily waives any right to claim bias or prejudgment of the Chief Legal Officer, 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.

Respondent 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

Respondent 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 it;
- C. If accepted:
 - 1. this AWC will become part of its permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against it;
 - 2. this AWC will be made available through FINRA's public disclosure program in accordance with FINRA Rule 8313.
 - 3. FINRA may make a public announcement concerning this agreement and the subject matter thereof in accordance with FINRA Rule 8313; and
 - 4. Respondent 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. Respondent 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 its: (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; and
- D. Respondent may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. Respondent 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 understand 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.

Cambridge Investment Research, Inc.

03/13/2015
Date (mm/dd/yyyy)

By: Thomas J. Anderson
Thomas J. Anderson
First Vice-President and Chief Compliance Officer

Reviewed by:

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Accepted by FINRA:

March 31, 2015
Date

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

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