

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER, AND CONSENT
NO. 2016048934301**

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

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

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Cambridge 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 Cambridge alleging violations based on the same factual findings described in this AWC.

I.

ACCEPTANCE AND CONSENT

- A. Cambridge 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

Cambridge is a retail broker that has been registered with FINRA or its predecessor since 1995. The firm is headquartered in Fairfield, Iowa and has approximately 2,200 branch offices and 4,000 registered persons.

RELEVANT DISCIPLINARY HISTORY

Cambridge does not have any relevant disciplinary history.

OVERVIEW

For more than two years, Cambridge did not supervise and record approximately one hundred of its customers' redemptions of variable annuities. Additionally, for three years, Cambridge failed to establish, maintain, and enforce a supervisory system and written supervisory procedures reasonably designed to supervise representatives' sales of leveraged, inverse, and inverse-leveraged exchange-traded funds ("Non-Traditional ETFs"). As a result, Cambridge violated Securities Exchange Act of 1934 Rule 17a-3, NASD Rule 3010, and FINRA Rules 2010, 3110, and 4511.

FACTS AND VIOLATIVE CONDUCT

A. Cambridge Failed to Establish, Maintain, and Enforce a Reasonably-Designed Supervisory System and Procedures Regarding Redemptions of Variable Annuities

From January 2014 to March 2016, on approximately one hundred occasions Cambridge's customers redeemed variable annuities and transferred the proceeds to an advisory account. Cambridge's associated persons were involved with and recommended some of those transactions. Cambridge did not systematically supervise or record those redemptions or have written procedures for doing so. Nor did Cambridge ascertain which of those transactions were recommended by the firm's associated persons and thus were subject to FINRA's suitability requirements.

FINRA Rule 3110 requires broker-dealers to establish and maintain a supervisory system, and to establish, maintain, and enforce written supervisory procedures, that are reasonably designed to achieve compliance with applicable securities laws, regulations, and rules; NASD Rule 3010 imposed similar requirements before December 1, 2014. Also, FINRA has reminded member firms about their obligations regarding redemptions of variable annuities, obligations that require firms to supervise those transactions, as appropriate.¹ Exchange Act Rule 17a-3 requires broker-dealers to record all sales of securities, and FINRA Rule 4511 requires firms to keep records that the Exchange Act requires. Violating any of those rules constitutes a violation of FINRA Rule 2010.

Cambridge's supervisory system and written supervisory procedures were not reasonably designed to comply with applicable supervision and recordkeeping requirements with respect to redemptions of variable annuities, and the firm did not record those transactions. As a result, Cambridge violated Exchange Act Rule 17a-3, NASD Rule 3010, and FINRA Rules 2010, 3110, and 4511.

B. Cambridge Failed to Establish, Maintain, and Enforce a Reasonably-Designed Supervisory System and Procedures Regarding Non-Traditional ETFs

1. Non-Traditional ETFs

Non-Traditional ETFs are designed to return a multiple of an underlying index or benchmark, the inverse of that benchmark, or both, over the course of one trading session—usually a single day. The performance of Non-Traditional ETFs over periods of time longer than a single trading session “can differ significantly from the performance ... of their underlying index or benchmark during the same period of time.”² Because of these risks and the inherent complexity of these

¹ See Reminder—Suitable of Variable Annuity Sales, Regulatory & Compliance Alert at 13 (2002).

² FINRA Regulatory Notice 09-31.

products, FINRA has advised broker-dealers and their representatives that Non-Traditional ETFs “are typically not suitable for retail investors who plan to hold them for more than one trading session, particularly in volatile markets.”³

2. Cambridge’s Non-Traditional ETF Business

From June 2012 to June 2015, eighty-four Cambridge registered representatives traded Non-Traditional ETFs in retail customer accounts. These registered representatives executed 4,773 transactions totaling approximately \$127 million.

3. Cambridge Failed to Adequately Supervise the Sale of Non-Traditional ETFs

a. Cambridge’s Procedures for Non-Traditional ETFs

In April 2010, Cambridge established written supervisory procedures for Non-Traditional ETFs that required registered representatives who wanted to trade Non-Traditional ETFs to complete a forty-five-minute training session and sign a “Leveraged/Inverse ETF Rep/Advisor Attestation Form” (“the Attestation Form”). The Attestation Form required representatives to make several representations before executing a Non-Traditional ETF transaction, including that the representative:

- completed the required Cambridge training;
- understood that Non-Traditional ETFs are short-term investments and that it might not be suitable to hold Non-Traditional ETFs for more than one trading period; and
- obtained a “Leveraged/Inverse ETF Disclosure Form” (“the Disclosure Form”) from customers, which contained representations from the customers regarding that they understood the risks and features of Non-Traditional ETFs.

b. Cambridge Failed to Enforce its Procedures

Cambridge failed to enforce its written supervisory procedures regarding Non-Traditional ETFs in several respects. First, Cambridge allowed representatives to execute Non-Traditional ETF trades before signing the Attestation Form. All eighty-four representatives who executed Non-Traditional ETF transactions from June 2012 to June 2015 executed at least one such transaction before signing the Attestation Form. Second, Cambridge allowed many customers to purchase Non-Traditional ETFs before submitting the required Disclosure Form.

³ *Id.*

4. Cambridge Failed to Adequately Monitor Non-Traditional ETF Holding Periods

From June 2012 to June 2015, Cambridge did not establish an adequate supervisory system to effectively monitor holding periods for Non-Traditional ETFs. As discussed above, a primary risk with Non-Traditional ETFs is that their performance over longer periods of time can differ significantly from the performance of their underlying index or benchmark, particularly in volatile markets. Cambridge's procedures required the Compliance Department to review customer accounts that held Non-Traditional ETF positions and identify any accounts that were holding these positions for more than ten days and, if necessary, follow up with the responsible registered representative. Cambridge, however, failed to enforce these procedures. Cambridge's failure to adequately monitor customers' Non-Traditional holding periods resulted in customers holding Non-Traditional ETF positions for lengthy periods of time. There were numerous Non-Traditional ETF positions that were sold by the Firm's customers that were held for longer than seven days.

Based on the foregoing, Cambridge violated NASD Rule 3010 and FINRA Rules 3110 and 2010.

B. Cambridge also consents to the imposition of the following sanctions:

- Fine of \$150,000
- Censure

Cambridge agrees to pay that fine upon notice that this AWC has been accepted and that the fine is due and payable. Cambridge has submitted an Election of Payment form showing the method by which Cambridge proposes to pay the fine. Cambridge specifically and voluntarily waives any right to claim that it is unable to pay, now or at any time hereafter, the fine.

The sanctions imposed in this AWC shall be effective on a date set by FINRA staff.

II.

WAIVER OF PROCEDURAL RIGHTS

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

- A. To have a Complaint issued specifying the allegations against Cambridge;
- 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, Cambridge 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.

Cambridge 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

Cambridge 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 Cambridge; and
- C. If accepted:
 - 1. this AWC will become part of Cambridge's permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against Cambridge;
 - 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. Cambridge 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. Cambridge 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 Cambridge's testimonial obligations or right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party.

- D. Cambridge may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. Cambridge 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.

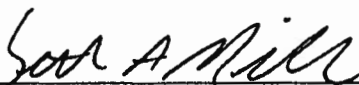
The undersigned, on behalf of Cambridge, certifies that a person duly authorized to act on its behalf has read and understands all of the provisions of this AWC and has been given a full opportunity to ask questions about it; that Cambridge has agreed to its provisions voluntarily; and that no offer,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

4/11/18

Date (mm/dd/yyyy)

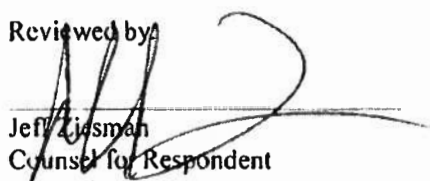
Cambridge Investment Research, Inc.

By:



Seth A. Miller
General Counsel

Reviewed by



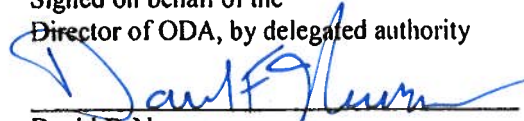
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Accepted by FINRA:

May 3, 2018
Date

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



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