

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER, AND CONSENT
NO. 2023078217102**

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

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

Pursuant to FINRA Rule 9216, Respondent Cambridge Investment Research, Inc. 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 Respondent alleging violations based on the same factual findings described in this AWC.

I.

ACCEPTANCE AND CONSENT

- A. Respondent accepts and consents to the following findings by FINRA without admitting or denying them:

BACKGROUND

Cambridge Investment Research, Inc., which has been a FINRA member since December 1995, is headquartered in Fairfield, Iowa. The firm provides securities brokerage, wealth management, and investment banking services. The firm has approximately 4,900 registered representatives and approximately 2,800 branch offices.¹

OVERVIEW

From June 30, 2020, through February 2023, Cambridge failed to reasonably supervise a registered representative's Unit Investment Trust recommendations to achieve compliance with the Care Obligation of Regulation Best Interest. Cambridge therefore violated FINRA Rules 3110 and 2010. For these violations, the firm is censured and fined \$200,000.

FACTS AND VIOLATIVE CONDUCT

This matter originated from FINRA's review of a Uniform Termination Notice for Securities Industry Registration (Form U5) filed by Cambridge on March 17, 2023,

¹ For more information about the firm, including prior regulatory events, visit BrokerCheck® at www.finra.org/brokercheck.

disclosing that the firm had terminated the representative for “[e]xcessive use of UIT products.”

A. Unit Investment Trusts

A Unit Investment Trust (UIT) is an SEC-registered investment company that offers investors shares or “units” in a fixed portfolio of securities in a one-time public offering. A UIT terminates on a specified maturity date, often after 15 or 24 months, at which point the underlying securities are sold and the resulting proceeds are paid to the investors. Generally, a UIT’s portfolio is not actively managed between the trust’s inception and its maturity date.

UIT sponsors typically offer UIT product lines in successive “series,” with the offering periods for new series usually coinciding with the maturity date of prior series. Successive series of UITs often have the same or similar investment objectives and investment strategies as the prior series, even if the portfolio of securities held by the UIT changes from series to series.

UITs impose a variety of upfront charges. A typical UIT contains three separate charges relating to its purchase: (1) a deferred sales charge, which generally ranges from 1.35% to 2.30% of the offering price (depending on the sponsor and the UIT timespan); (2) a creation and development fee (C&D fee), which is 0.5% of the offering price and paid to the sponsor; and (3) an “organization cost,” which is typically between .25% and .75% of the offering price and paid to the sponsor.² Customers typically do not receive discounts for “rolling over” proceeds from the sale of a UIT to fund the purchase of a new UIT.

A registered representative who recommends the sale of a customer’s UIT before its maturity date (an “early redemption”) causes the customer to forgo part of the benefit for which the customer paid upfront and raises the possibility that a customer has not held the UIT for a long enough period of time to recoup the costs associated with the front-end sales charge. Moreover, when a registered representative uses the sale proceeds to purchase a new UIT (or another product with a high upfront sales charge), the customer incurs greater charges than if the customer held the UIT until maturity. For example, a customer who purchased a 15-month UIT and held it until maturity would pay an upfront charge of about 2.15%. A customer who bought and sold three UITs during that 15-month period would, by contrast, pay sales charges of 6.45% or more. These higher sales charges are particularly difficult to justify when the new UIT is in the same series as the UIT that was sold.

B. Applicable Law

FINRA Rule 3110(a) requires that each member establish and maintain a system to supervise the activities of each associated person that is reasonably designed to achieve

² The C&D fee and organization cost are generally charged during months three through six of the UIT’s term. After those charges are paid, typically by month six, there are no sales charges applied for the life of the UIT. In addition to these charges, most UITs charge annual operating expenses that are paid to the sponsor out of the assets of the UIT.

compliance with applicable securities laws and regulations, and with applicable FINRA rules. The duty to supervise under Rule 3110 also includes the responsibility to reasonably investigate “red flags” that suggest that misconduct may be occurring and to act upon the results of such investigation.

A violation of FINRA Rule 3110 is also a violation of FINRA Rule 2010, which requires member firms to “observe high standards of commercial honor and just and equitable principles of trade” in the conduct of their business.

As of June 30, 2020, broker-dealers and their associated persons are required to comply with Regulation BI under the Securities Exchange Act of 1934 (Reg BI). Rule 15c-1(a)(1) of Reg BI requires a broker, dealer, or a natural person associated with a broker or dealer, when making a recommendation of any securities transaction or investment strategy involving securities (including account recommendations) to a retail customer, to act in the best interest of that retail customer at the time the recommendation is made, without placing the financial or other interest of the broker, dealer, or associated person ahead of the interest of the retail customer. Reg BI’s Care Obligation, set forth at Exchange Act Rule 15c-1(a)(2)(ii), requires broker-dealers and their associated persons to exercise reasonable diligence, care, and skill to, among other things, have a reasonable basis to believe that the recommendation is in the best interest of a particular retail customer based on that retail customer’s investment profile and the potential risks, rewards, and costs associated with a recommendation. Reg BI’s Adopting Release provides that what constitutes “reasonable diligence” depends on, among other things, the complexity of, and risks associated with, the recommended security.³

C. Cambridge failed to reasonably supervise the representative’s UIT recommendations.

From January 2020 through February 2023, Cambridge’s written supervisory procedures (WSPs) recognized that UITs should generally not be utilized for short-term trading because of the high costs associated with such a strategy. Similarly, the firm’s Compliance Manual provided additional generalized guidance regarding the costs associated with short-term UIT trading.

Cambridge failed to reasonably respond to red flags that the representative was repeatedly recommending that customers sell UITs prior to maturity.⁴ To supervise early UIT redemptions, Cambridge relied on an automated system that flagged every sale of a UIT followed by the purchase of another UIT within a set period of time, *i.e.*, early UIT rollovers. From January 2020, when he joined Cambridge, through February 2023, when he was terminated, the representative’s recommendations generated approximately 60% of all trade alerts for early UIT rollovers across the entire firm, even though the

³ *Regulation Best Interest: The Broker-Dealer Standard of Conduct*, Exchange Act Release No. 86031, 84 FR 33318 at 33376 (July 12, 2019).

⁴ FINRA has barred the representative from associating with any FINRA member in all capacities for failing to respond to a request for information and documents that was issued pursuant to FINRA Rule 8210.

representative's recommendations accounted for approximately 10% of the firm's total UIT business.

From June 30, 2020, through February 2023, the firm failed to reasonably supervise the representative's recommendations for compliance with Reg BI's Care Obligation. Starting in June 2020, supervisory personnel repeatedly escalated concerns regarding not only the volume of alerts generated by the representative's UIT recommendations to retail customers, but also the vague rationales he provided to justify those recommendations. Separately, as early as May 2021, compliance personnel responsible for reviewing alerts for patterns of potential misconduct raised concerns regarding the representative's patterns of early UIT redemptions, particularly his pattern of selling UITs significantly before their maturity dates. Nonetheless, despite these red flags, the firm did not reasonably investigate the representative's UIT recommendations. The supervisors to whom these concerns were escalated did not question the representative's stated reasons for selling UITs before maturity, nor did they reasonably evaluate the additional costs customers incurred as a result of these early UIT redemptions. As a result, the firm failed to take timely steps to address the representative's pattern of recommending that customers sell UITs prior to maturity.

In January 2023, compliance personnel directly escalated concerns to the firm's senior compliance leadership, which prompted the firm to conduct a reasonable investigation and terminate the representative in February 2023.

During the time he was associated with Cambridge, the representative recommended that his retail customers sell UITs after holding them, on average, for only 56% of their term lengths. Moreover, the representative's customers sold 90% of their UIT positions prior to maturity, and they typically rolled the proceeds from these sales into new UIT positions. Collectively, these recommendations caused 184 customers to pay at least \$389,200.62 in costs and fees during the relevant period that they would not have incurred had they held the UITs until their maturity dates.

Therefore, Cambridge violated FINRA Rules 3110 and 2010.

SANCTIONS CONSIDERATIONS

In determining the appropriate sanctions in this matter, FINRA considered, among other factors, that before FINRA's investigation commenced, Cambridge terminated the representative and hired an outside consultant to calculate the additional costs and fees that the representative's customers incurred as a result of his UIT recommendations. Based on the consultant's findings, in April 2023, the firm voluntarily determined to pay restitution of \$389,200.62 to 184 customers.

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

- a censure and
- a \$200,000 fine.

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 an inability to pay, now or at any time after the execution of this AWC, the monetary sanction imposed in this matter.

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

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 its acceptance or rejection.

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 Respondent; and
- C. If accepted:
 - 1. this AWC will become part of Respondent's permanent disciplinary record and may be considered in any future action brought by FINRA or any other regulator against Respondent;
 - 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 its subject matter 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 Respondent's right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party. Nothing in this provision affects Respondent's testimonial obligations in any litigation or other legal proceedings.
- 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.

The undersigned, on behalf of Respondent, certifies that a person duly authorized to act on Respondent's 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 Respondent has agreed to the AWC's 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 Respondent to submit this AWC.

April 13, 2026

Date



Cambridge Investment Research, Inc.
Respondent

Print Name: Rick H. Kuhlman

Title: Senior Vice President, Chief Legal Officer

Accepted by FINRA:
Signed on behalf of the
Director of ODA, by delegated authority

April 30, 2026

Date



Alex Ehmke
Principal Counsel
FINRA
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