

**FINANCIAL INDUSTRY REGULATORY AUTHORITY  
LETTER OF ACCEPTANCE, WAIVER, AND CONSENT  
NO. 2020068650901**

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

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

Pursuant to FINRA Rule 9216, Respondent Cambridge Investment Research, Inc. (CRD No. 39543) 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, which has been a FINRA member since 1995, maintains its principal place of business in Fairfield, Iowa. The firm has approximately 4,560 registered representatives and 2,700 branch offices.

**OVERVIEW**

Between January 2015 and March 2022, Cambridge Investment Research failed to establish and maintain a system reasonably designed to supervise the application of sales charge waivers and fee rebates to which customers were entitled through rights of reinstatement offered by mutual fund companies. Consequently, customers paid \$699,217 in excess sales charges and fees during the review period.

Therefore, Cambridge Investment Research violated FINRA Rules 3110 and 2010.

## FACTS AND VIOLATIVE CONDUCT

This matter originated from FINRA's targeted examination regarding rights of reinstatement.

### **Eligible mutual fund customers are entitled to rights of reinstatement.**

Mutual fund issuers generally offer various privileges to their shareholders, which are identified in a fund's prospectus or statement of additional information. These privileges may include a right of reinstatement, which allows investors to purchase shares of a fund after previously selling shares of that fund or another fund in the same fund family, without incurring a front-end sales charge (typically, but not always, involving Class A shares), or to recoup all or part of a contingent deferred sales charge (CDSC). The right of reinstatement benefit is available only if the reinvestment occurs within a designated period between the sale and the repurchase, which varies depending on the fund. Typically, the period ranges from 30 days to 120 days but, in some cases, can be up to two years.

### **Cambridge Investment Research failed to reasonably supervise the application of rights of reinstatement.**

FINRA Rule 3110(a) requires FINRA members to establish and maintain a system to supervise the activities of each associated person that is reasonably designed to achieve compliance with applicable securities laws, regulations, and FINRA rules. A violation of FINRA Rule 3110 also constitutes a violation of FINRA Rule 2010, which requires that a member, in the conduct of its business, observe high standards of commercial honor and just and equitable principles of trade.

Between January 2015 and March 2022, Cambridge Investment Research failed to establish or maintain a system reasonably designed to supervise whether eligible customers received applicable mutual fund sales charge waivers and fee rebates through rights of reinstatement. The firm largely relied on individual registered representatives to manually identify and apply rights of reinstatement discounts. The firm did not have any automated surveillance that was reasonably designed to flag instances in which customers missed discounts for which they were eligible. Instead, the firm relied on an alert to identify mutual fund switches that occurred within 90 or 180 days of a prior sale. However, many funds' reinstatement periods exceeded 90 or 180 days and the alert therefore did not capture many transactions eligible for reinstatement privileges.

As a result of its supervisory deficiencies, Cambridge Investment Research did not provide customers with rights of reinstatement benefits to which they were entitled. Those customers paid \$699,217 in excess sales charges and fees.

Therefore, Cambridge Investment Research violated FINRA Rules 3110 and 2010.

## CREDIT FOR EXTRAORDINARY COOPERATION

In resolving this matter, FINRA has recognized Cambridge Investment Research's extraordinary cooperation for having: (1) initiated an extensive review of the firm's systems, practices, and procedures; (2) engaged an outside consultant to identify disadvantaged customers and calculate remediation due, including interest; (3) established a plan to efficiently identify, notify, and repay customers eligible for restitution; (4) established a process to supervise mutual fund transactions to ensure that customers receive all applicable rights of reinstatement benefits; (5) already made restitution to some impacted customers in the amount of \$230,052; and (6) provided substantial assistance to FINRA in its investigation.

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

- a censure and
- restitution of \$699,217 plus interest.<sup>1</sup>

Restitution is ordered to be paid to affected customers in the total amount of \$699,217 (less funds already remediated, as reflected above), plus interest at the rate set forth in Section 6621(a)(2) of the Internal Revenue Code, 26 U.S.C. § 6621(a)(2), from date of the affected transactions through the approximate date of remediation. These payments shall be made to customers as specified in the written plan of remediation previously provided to FINRA by Respondent.

A registered principal on behalf of Respondent shall submit satisfactory proof of payment of restitution and interest (separately specifying the date and amount of each paid to each customer) or of reasonable and documented efforts undertaken to effect restitution. Such proof shall be submitted by email to [EnforcementNotice@FINRA.org](mailto:EnforcementNotice@FINRA.org) from a work-related account of the registered principal of Respondent. The email must identify Respondent and the case number and include a copy of the check, money order, or other method of payment. This proof shall be provided by email to [EnforcementNotice@FINRA.org](mailto:EnforcementNotice@FINRA.org) no later than 150 days after the date of the notice of acceptance of the AWC.

The restitution amount plus interest to be paid to each customer shall be treated by the Respondent as the customer's property for purposes of state escheatment, unclaimed property, abandoned property, and similar laws. If, after reasonable and documented efforts undertaken to effect restitution, Respondent is unable to pay all affected customers within 150 days after the date of the notice of acceptance of the AWC, Respondent shall submit to FINRA in the manner described above a list of the unpaid customers and a description of Respondent's plan, not unacceptable to FINRA, to comply with the applicable escheatment, unclaimed property, abandoned property, or similar laws for each such customer.

---

<sup>1</sup> As noted above, before the effective date of this AWC, Cambridge Investment Research paid a portion of this remediation (\$230,052), including statutorily calculated interest, to the affected customers.

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 imposition of a restitution order or any other monetary sanction in this AWC, and the timing of such ordered payments, does not preclude customers from pursuing their own actions to obtain restitution or other remedies.

Restitution payments to customers shall be preceded or accompanied by a letter, not unacceptable to FINRA, describing the reason for the payment and the fact that the payment is being made pursuant to a settlement with FINRA and as a term of this AWC.

The sanction 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), in accordance with 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 FINRA's views.

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.

Nov. 25, 2024

Date



Cambridge Investment Research, Inc.  
Respondent

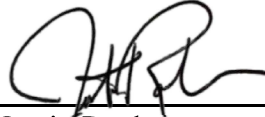
Print Name: Richard H. Kuhlman  
Title: Senior Vice President, Chief Legal Officer

Accepted by FINRA:

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

12/20/2024

Date



Justin Roeber  
Principal Counsel  
FINRA  
Department of Enforcement  
4600 S. Syracuse Street  
Suite 1400  
Denver, CO 80237