

FINANCIAL INDUSTRY REGULATORY AUTHORITY

In the Matter of the
Continued Membership
of
Cambridge Investment Research, Inc.
(CRD No. 39543)

Notice Pursuant to
Rule 19h-1
Securities Exchange Act
of 1934

SD-2397

October 29, 2024

I. Introduction

On March 4, 2024, Cambridge Investment Research, Inc. (“Cambridge” or “Firm”) submitted a Membership Continuance Application (“MC-400A” or “Application”) to FINRA’s Credentialing, Registration, Education, and Disclosure (“CRED”) Department.¹ The Application seeks to permit the Firm, a FINRA member, to continue its membership with FINRA notwithstanding its statutory disqualification. A hearing was not held in this matter; rather, pursuant to FINRA Rule 9523(b), FINRA’s Department of Member Supervision (“FINRA,” “Member Supervision,” or “Department”) approves the Application and is filing this Notice pursuant to Rule 19h-1 of the Securities Exchange Act of 1934 (“Exchange Act” or “SEA”).

II. The Statutorily Disqualifying Event

The Firm is subject to statutory disqualification, as that term is defined in Section 3(a)(39)(F) of the Exchange Act, incorporating by reference Sections 15(b)(4)(D) and (E), as a result of a February 2024 order issued by the Securities and Exchange Commission (“SEC” or “Commission”) finding that Cambridge willfully violated Section 17(a) of the Exchange Act and Rule 17a-4(b)(4) and failed reasonably to supervise its employees with a view to preventing or detecting certain of its employees’ aiding and abetting violations of Section 17(a) of the Exchange Act and Rule 17a-4(b)(4) thereunder (“SEC Order”).²

¹ See MC-400A and related attachments compiled by CRED, with a cover memorandum dated April 30, 2024, attached as Exhibit 1.

² See SEC Order, *In re Cambridge Investment Research, Inc. and Cambridge Investment Research Advisors, Inc.*, Exchange Act Release No. 99498 (Feb. 9, 2024), attached as Exhibit 2.

The SEC Order also triggered disqualification under Rules 262(a)(4), 506(d)(1)(iv), and 602(c)(3) of the Securities Act of 1933 and Rule 503(a)(4)(ii) of Regulation Crowdfunding. On February 9, 2024, the SEC granted a waiver from the application of the disqualification provisions of these Rules. See *In re Certain Broker-Dealer Practices*, Securities Act Release No. 11270 (Feb. 9, 2024), attached as Exhibit 3.

According to the SEC Order, from at least January 2019, Cambridge employees sent and received off-channel communications that related to the Firm's business, and a majority of these written communications was not maintained or preserved by the Firm.³ Further, supervisors who were responsible for preventing this misconduct among junior employees routinely communicated off-channel using their personal devices, and, in so doing, failed to comply with Firm policies by communicating using non-Firm approved methods on their personal devices about the Firm's broker-dealer business.⁴

The Firm was censured, ordered to cease and desist from committing or causing any future violations, ordered to pay a civil monetary penalty of \$10,000,000 (jointly and severally with an affiliate), and ordered to comply with certain undertakings.⁵

III. Remedial Measures

In its Application, the Firm represented that it undertook remedial measures to encourage its employees to use approved communications methods prior to the issuance of the SEC Order, and began implementing significant changes to the technology available to employees.⁶ The Firm circulated various bulletins and reminders to its staff regarding the use of text messaging, and it included reminders regarding the requirement to maintain records of all electronic communications in its annual compliance meetings.⁷

According to the SEC Order, the Commission considered the Firm's prompt remedial actions and cooperation with the SEC when determining to accept the Offer of Settlement.⁸

IV. Firm Background

The Firm has been a FINRA member since December 11, 1995.⁹ It is headquartered in Fairfield, Iowa, with 2719 branches (365 of which are Offices of Supervisory Jurisdiction).¹⁰ The Firm employs approximately 4541 registered representatives (1190 of

³ See Exhibit 2 at p. 2.

⁴ *Id.*

⁵ *Id.* at pp. 6-12. The Firm paid the penalty on February 9, 2024. See Exhibit 1 at FINRA00089, Item 4. The Firm has represented that it is in compliance with the ordered undertakings. *Id.* at FINRA00104. See also Firm Discovery Responses dated September 9, 2024, attached as Exhibit 4.

⁶ See Exhibit 1 at FINRA00106.

⁷ *Id.*

⁸ See Exhibit 2 at p. 6 para. 33.

⁹ See Central Registration Depository ("CRD") Excerpt – Organization Registration Status, attached as Exhibit 5.

¹⁰ FINRA confirmed this through analysis of the Firm's information contained in CRD, last performed on October 2, 2024.

which are registered principals), 47 operations professionals, and 4712 non-registered fingerprint employees.¹¹ It employs seven statutorily disqualified individuals.¹²

Cambridge is approved to engage in the following lines of business: broker or dealer retailing corporate equity securities over-the-counter; broker or dealer selling corporate debt securities; mutual fund retailer; U.S. government securities broker; municipal securities broker; broker or dealer selling variable life insurance or annuities; broker or dealer selling gas or oil interests; put and call broker or dealer or option writer; broker or dealer selling tax shelters or limited partnerships in primary distributions; broker or dealer selling tax shelters or limited partnerships in the secondary market; non-exchange member arranging for transactions in listed securities by exchange member; trading securities for own account; private placements of securities; broker or dealer selling interests in mortgages or other receivables; broker or dealer involved in a networking, kiosk, or similar arrangement with a bank, savings bank or association, or credit union; broker or dealer involved in a networking, kiosk, or similar arrangement with an insurance company or agency; engages in other securities business; fixed insurance.¹³

The Firm is a member of the following self-regulatory organizations (“SROs”): Municipal Securities Rulemaking Board (“MSRB”); National Securities Clearing Corporation (“NSCC”).¹⁴

Recent Examinations

In the past two years, FINRA completed one routine examination and one non-routine examination of the Firm which resulted in a Cautionary Action Letter (“CAL”). The SEC also completed two examinations that resulted in deficiencies.

A. FINRA Routine Examination

In October 2024, FINRA completed a routine examination which resulted in a CAL to the Firm for ten exceptions, with another two exceptions referred to FINRA’s Department of Enforcement (“Enforcement”) for further review and disposition.¹⁵ The exceptions that were the subject of the CAL pertained to the Firm’s failure to: establish, maintain, and enforce procedures reasonably designed to identify, mitigate, and supervise conflicts of interest related to cash and non-cash compensation provided by product sponsors at the registered representative level and forgivable loans made to registered representatives;

¹¹ *Id.*

¹² *Id.* See Appendix A.

¹³ See CRD Excerpts – Types of Business and Other Business Descriptions, collectively attached as Exhibit 6.

¹⁴ Membership in these organizations was verified by FINRA staff through a search of public member directories, last performed on October 2, 2024.

¹⁵ See Disposition Letter for Examination No. 20230771252 dated October 1, 2024, Examination Report dated July 26, 2024, and Firm Response dated August 20, 2024, collectively attached as Exhibit 7.

establish, maintain, and enforce written supervisory procedures (“WSPs”) reasonably designed to achieve compliance with Regulation Best Interest; implement and enforce its WSPs related to the review and approval of Consolidated Account Statements, supervision of employees who determine the supervisor’s compensation, and placing registered representatives on heightened supervision plans; timely file Rule 4530 complaints; establish and implement adequate processes to supervise various aspects of bond transactions; and supervise the communications of one of its registered representatives.¹⁶ The two exceptions referred to Enforcement pertained to the Firm’s failure to establish, maintain, and enforce a supervisory system pertaining to outside business activities (“OBAs”).¹⁷ The Firm responded in writing that it updated its Form CRS and WSPs in various ways, and increased training, amongst other measures taken.¹⁸

B. FINRA Non-Routine Examinations

In August 2023, FINRA issued a CAL to the Firm based on one exception pertaining to the Firm’s failure to timely amend a former registered representative’s Form U5 to include a customer arbitration.¹⁹

C. SEC Examinations

In August 2023, the SEC concluded an examination of the Firm that identified deficiencies related to the Firm’s failure to comply with Reg BI by failing to establish written policies and procedures that explained how the Firm’s registered representatives should evaluate reasonably available alternatives and the costs associated with making recommendations to retail customers.²⁰ The Firm responded that it updated its WSPs.²¹

In July 2023, the SEC concluded an examination of the Centennial, Colorado branch of the Firm that identified deficiencies related to the Firm’s failure to establish reasonably designed WSPs concerning remote branch office inspections, to adopt written policies and procedures reasonably designed to address periodic risk assessments under Regulation S-P, and to establish WSPs to search or surveil for any undisclosed outside business activities of its registered representatives, registered principals, and associated persons.²² The Firm

¹⁶ *Id.* at FINRA pp. 6-16.

¹⁷ *Id.* at FINRA pp. 8-11. The exceptions referred to Enforcement remain open.

¹⁸ *Id.* at FINRA pp. 26-37.

¹⁹ *See* Disposition Letter for Examination No. 20220762402 dated August 22, 2023 and Examination Report dated August 22, 2023, collectively attached as Exhibit 8. The Firm was not required to provide a written response.

²⁰ *See* SEC Examination Letter, SEC File No. 008-48740 dated August 16, 2023, and Firm Response dated September 15, 2023, collectively attached as Exhibit 9.

²¹ *Id.* at FINRA pp. 5-6.

²² *See* SEC Examination Letter, SEC File No. 008-48740 dated July 31, 2023, and Firm Response dated

responded that it was reviewing its procedures and processes for opportunities for enhancement.²³

Regulatory Actions

In the past two years, Cambridge has not been the subject of any disciplinary actions, aside from the SEC Order that led to the Application.

B. SEC Actions and Other Statutory Disqualification Matters

In addition to the above, the Firm was also the subject of one recent SEC order, which also subjected the Firm to statutory disqualification but did not require the filing of a SEA Rule 19h-1 Notice with the Commission.

On August 30, 2021, the SEC issued an order finding the Firm willfully violated Rule 30(a) of Regulation S-P by failing to adopt written policies and procedures reasonably designed to protect customer records and information.²⁴ The Firm was censured, ordered to cease and desist from committing or causing any violations and any future violations of Rule 30(a) of Regulation S-P, and ordered to pay a civil money penalty jointly and severally in the amount of \$250,000.²⁵

V. Prior SEA Rule 19h-1 Notices

Cambridge has not been subject to any prior SEA Rule 19h-1 or 19d-1 Notices.

VI. The Firm's Proposed Continued Membership with FINRA and Plan of Heightened Supervision

The Firm seeks to continue its membership with FINRA notwithstanding its status as a disqualified member. The Firm has agreed to the following Plan of Heightened Supervision ("Supervision Plan" or "Plan") as a condition of its continued membership with FINRA:²⁶ Cambridge Investment Research, Inc. ("Cambridge" or the "Firm") is subject to statutory disqualification pursuant to Section 3(a)(39)(F) of the Securities Exchange Act of 1934,

August 28, 2023, collectively attached as Exhibit 10.

²³ *Id.* at FINRA pp. 5-7.

²⁴ See SEC Order, *In re Cambridge Investment Research, Inc. and Cambridge Investment Research Advisors, Inc.*, Exchange Act Release No. 92806 (Aug. 30, 2021), attached as Exhibit 11. This order subjects the Firm to statutory disqualification as defined in Exchange Act Section 3(a)(39)(F), incorporating by reference Section 15(b)(4)(D).

²⁵ *Id.* at p. 5. On September 30, 2021, the Firm submitted an affirmation to FINRA that sanctions were no longer in effect. Since there are no sanctions in effect for statutory disqualification purposes, an application to continue in membership is no longer required under FINRA rules. See also [FINRA Regulatory Notice 09-19](#) (June 15, 2009). As such, a 19h-1 Notice was not filed in connection with this matter.

²⁶ See Executed Consent to Plan of Heightened Supervision dated October 2, 2024, attached as Exhibit 12.

which incorporates by reference Sections 15(b)(4)(D) & (E), as a result of an order issued by the U.S. Securities and Exchange Commission (“SEC” or “Commission”) dated February 9, 2024 which found that the Firm willfully violated Section 17(a) of the Securities Exchange Act of 1934 and Rule 17a-4(b)(4) thereunder (“SEC Order”). The SEC Order also found that the Firm failed reasonably to supervise its employees within the meaning of Section 15(b)(4)(E).

For the purpose of this Supervision Plan, the term “Digital Communication Channels” means all written electronic methods of communication used to conduct Firm business, including but not limited to, text messaging platforms, whether via SMS messaging, iMessage, or other messaging services such as WhatsApp; direct messaging platforms including X f/k/a “Twitter,” Instagram, LinkedIn, Slack, or Bloomberg Messaging; non-firm domain email accounts; and any other written electronic business-related correspondence. “Digital Communication Channels” encompass platforms used to exchange messages with internal or external stakeholders using either a personal or Firm-provided device.

For the purpose of this Supervision Plan, the term “Off-Channel Communications” means all business-related written electronic messages sent on Digital Communication Channels that are not captured by Firm surveillance and record-keeping systems.

In consenting to this Supervision Plan, the Firm agrees to the following:

1. The Firm shall comply with all of the undertakings outlined in the SEC Order.
2. The Firm shall maintain copies of all correspondence between the Firm and Commission staff relating to the SEC Order, including documenting when Commission staff grants extensions to the deadlines set forth in the SEC Order. The Firm shall maintain copies of all such correspondence in a readily accessible place for ease of review by FINRA staff.
3. The Firm shall provide FINRA’s Statutory Disqualification Group with copies of all certifications submitted to the SEC upon completion of the undertakings as specified in the SEC Order. The Firm shall maintain copies of all certifications in a readily accessible place for ease of review by FINRA staff.
4. The Firm shall maintain copies of all reports and supporting documentation submitted to SEC staff in accordance with the SEC Order, as well as any other documentation needed to evidence the status and completion of each of the undertakings outlined in the SEC Order. The Firm shall maintain copies of such documentation in a readily accessible place for ease of review by FINRA staff.
5. Within six months of the SEC’s Letter of Acknowledgement (“LOA”) in this matter, to the extent that it has not already done so within the past six months, and on at least an annual basis thereafter, for a term of six years from the date of the LOA, the Firm shall conduct training for all associated persons regarding the Digital Communication Channels that the Firm has approved for business

- communication, along with the Firm's current policies regarding retention of business-related electronic communications. The Firm shall maintain a record of individual completion of said training and a copy of said training materials in a readily accessible place for ease of review by FINRA staff.
6. The Firm shall conduct the training described in Paragraph 5 above for all new hires, within 65 days from the date of commencement of new hire training, for a term of six years from the date of the LOA. The Firm shall retain a record of all new hire training, including a copy of all written training materials, and keep said record(s) in a readily accessible place for ease of review by FINRA staff.
 7. Within 90 days of the LOA, the Firm shall, to the extent that it has not already done so, establish and maintain a written list(s) of all Digital Communication Channels that its associated persons are permitted to use to communicate about Firm business. The list(s) shall be circulated to all of the Firm's associated persons at least on a semi-annual basis, for a term of six years from the date of the LOA. The Firm shall require that all associated persons obtain written approval for use of any Digital Communication Channels to communicate about Firm business that are not already on the approved list(s) maintained by the Firm. The Firm shall maintain a record of all requests and approvals or rejections of each request, including the date of the requests and the Firm's decision. The Firm shall maintain copies of such requests and decisions in a readily accessible place for ease of review by FINRA staff.
 8. The Firm shall require all associated persons to disclose on at least a semi-annual basis, for a term of six years from the date of the LOA, any unapproved Digital Communication Channels he/she is using to communicate about Firm business. The Firm shall maintain records of such disclosures in a readily accessible place for ease of review by FINRA staff.
 9. Subject to Paragraph 7 above, the Firm shall prohibit associated persons from using Off-Channel Communications.
 10. Within 90 days of the LOA, the Firm shall, to the extent that it has not already done so, develop a process whereby, in the event that an associated person sends or receives an Off-Channel Communication, the Off-Channel Communication is submitted to the Firm and retained in compliance with relevant securities laws and regulations. For a term of six years from the date of the LOA, the Firm shall maintain a record of all such Off-Channel Communications, including a record of the Firm's receipt of the communication, in a readily accessible place for ease of review by FINRA staff.
 11. Within 90 days of the LOA, the Firm shall, to the extent that it has not already done so, develop and maintain written supervisory policies and procedures detailing the Firm's processes for disciplining associated persons who use Off-Channel Communications to communicate about Firm business. When the Firm uses the disciplinary process, the Firm shall document each instance. The Firm shall retain

records of such written supervisory policies and procedures and records of the disciplinary processes and each outcome.

12. All requested documents and certifications under this Supervision Plan shall be sent directly to FINRA's Statutory Disqualification Group at SDMailbox@FINRA.org.
13. The Firm shall obtain written approval from FINRA's Statutory Disqualification Group prior to changing any provision of the Supervision Plan.
14. The Firm shall submit any proposed changes or other requested information under this Supervision Plan to FINRA's Statutory Disqualification Group at SDMailbox@FINRA.org.

VII. Discussion

After carefully reviewing the entire record in this matter, FINRA approves the Firm's request to continue its membership with FINRA, subject to the terms and conditions set forth herein. In evaluating Cambridge's Application, FINRA assessed whether the Firm has demonstrated that its continued membership is consistent with the public interest and does not create an unreasonable risk of harm to investors or the markets. *See* FINRA By-Laws, Art. III, Sec. 3(d); *cf. Frank Kufrovich*, 55 S.E.C. 616, 624 (2002) (holding that FINRA "may deny an application by a firm for association with a statutorily disqualified individual if it determines that employment under the proposed plan would not be consistent with the public interest and the protection of investors"). Typically, factors that bear on FINRA's assessment include, among other things, the nature and gravity of the statutorily disqualifying misconduct, the time elapsed since its occurrence, the restrictions imposed, the Firm's regulatory history, and whether there has been any intervening misconduct.

As of the date of this Notice, FINRA has determined that the Firm's continued membership is consistent with the public interest and does not create an unreasonable risk of harm to investors or the markets. While the SEC Order identified serious violations of securities laws, the Firm was not expelled or suspended, nor were any limitations placed on Cambridge's securities activities. Although the SEC Order triggered certain disqualifications from exemptions from registration available under the Securities Act of 1933 ("Securities Act"), specifically Regulations A, D and E of the Securities Act and Regulation Crowdfunding, the SEC granted the Firm a waiver from the application of the disqualification provisions of Rules 262(a)(4)(ii), 506(d)(1)(iv)(B), and 602(c)(3) of the Securities Act and Rule 503(a)(4)(ii) of Regulation Crowdfunding. Moreover, the full amount of the civil monetary penalty was promptly paid. Additionally, the Firm represented that it is in compliance with the ordered undertakings.

Member Supervision also acknowledges that within the SEC Order the Commission considered the Firm's prompt remedial actions and cooperation with the Commission when determining to accept the Offer of Settlement. Amongst other measures, the Firm implemented technology changes and enhanced methods of training its staff on retention

of electronic communications.

In evaluating the Firm's Application, FINRA notes that Cambridge has no recent regulatory actions filed against it. In response to Cambridge's recent examination findings and exceptions, the Firm took steps to resolve them, including by enhancing policies and procedures, designing supervisory tools, updating its WSPs, and providing additional training. Following the approval of the Firm's continued membership in FINRA, FINRA intends to utilize its examination and surveillance processes to monitor the Firm's continued compliance with the standards prescribed by Exchange Act Rule 19h-1 and FINRA Rule 9523.

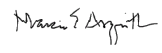
FINRA is further reassured by the controls set in place by the Firm's Supervision Plan which bolster the undertakings outlined in the SEC Order and will continue to provide oversight of the Firm and compliance with its remaining undertakings. In accordance with the Plan, the Firm agreed to conduct annual training for all associated persons, including new hires, regarding the Firm's approved digital communication methods and record retention policies for electronic communications. Further, the Plan calls for the Firm to maintain a list of approved digital communication methods that associated persons are permitted to use for Firm business and to circulate that list to its associated persons semi-annually. The Plan requires the Firm's associated persons to obtain written approval to use digital communication channels not already approved. The Plan prohibits the use of off-channel communications and requires associated persons to semi-annually disclose any unapproved digital communication methods they are using for Firm business; they must also forward any off-channel communications that may have taken place to the Firm for retention purposes. These provisions will help to ensure that the Firm is aware of the communication methods being used by associated persons so that it can appropriately monitor, capture, and retain those communications. Additionally, the Plan mandates that the Firm develop policies and procedures for disciplining associated persons who use unapproved communication methods for Firm business and segregate all certifications, reports, and supporting documentation submitted to the SEC regarding compliance with the undertakings, for ease of review by FINRA staff to ensure ongoing compliance.

Thus, FINRA is satisfied, based on the foregoing and on the Firm's representations made pursuant to the Supervision Plan, that the Firm's continued membership in FINRA is consistent with the public interest and does not create an unreasonable risk of harm to the market or investors. Accordingly, FINRA approves Cambridge's Application to continue its membership with FINRA.

FINRA certifies that the Firm meets all qualification requirements and represents that the Firm is registered with NSCC. NSCC has been provided with the terms and conditions of Cambridge's proposed continued membership and concurs with FINRA.

In conformity with the provisions of Rule 19h-1 of the Exchange Act, the continued membership of the Firm will become effective within 30 days of the receipt of this notice by the Commission, unless otherwise notified by the SEC.

On Behalf of FINRA,



Marcia E. Asquith
Executive Vice President & Corporate Secretary

Appendix A
Statutorily Disqualified Individuals
Associated with Cambridge Investment Research, Inc. (CRD #39543)

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

EXHIBITS

SD-2397

1. MC-400A Application and related attachments compiled by CRED, with a cover memorandum dated April 30, 2024.
2. SEC Order, *In re Cambridge Investment Research, INC*, Exchange Act Release No. 99498 (Feb. 9, 2024)
3. *In re Certain Broker-Dealer Practices*, Securities Act Release No. 11270 (Feb. 9, 2024).
4. Firm Discovery Response dated September 9, 2024, with proof of payment.
5. CRD Excerpt – Organization Registration Status.
6. CRD Excerpts - Types of Business and Other Business Descriptions.
7. Disposition Letter for Examination No. 20230771252 dated October 1, 2024, Examination Report dated July 26, 2024, and Firm Response dated August 20, 2024.
8. Disposition Letter for Examination No. 20220762402 dated August 22, 2023 and Examination Report dated August 22, 2023.
9. SEC Examination Letter, SEC File No. 008-48740 dated August 16, 2023, and Firm Response dated September 15, 2023.
10. SEC Examination Letter, SEC File No. 008-48740 dated July 31, 2023, and Firm Response dated August 28, 2023.
11. SEC Order, *In re Cambridge Investment Research, Inc. and Cambridge Investment Research Advisors, Inc.*, Exchange Act Release No. 92806 (Aug. 30, 2021).
12. Executed Consent to Plan of Heightened Supervision dated October 2, 2024,