FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2008015701101

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

RE: Cadaret, Grant & Co., Inc. (BD No. 10641)

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Respondent Cadaret, Grant & Co., Inc. ("Cadaret", "Respondent", or "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 the Firm 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

Cadaret has been a FINRA member since August 1982. Cadaret is a full service broker-dealer and has no relevant disciplinary history with FINRA, the Securities and Exchange Commission, or any other securities regulator or any state securities regulator.

OVERVIEW

Between September 2006 and June 2008 (the "Review Period"), Cadaret failed to establish an effective supervisory system and written supervisory procedures reasonably designed to ensure that customers received appropriate "breakpoints" and "rollover and exchange" discounts (collectively, "sales charge discounts") on eligible Unit Investment Trust ("UIT") purchases. Based on this failure, Cadaret violated NASD Rules 3010 and 2110. Further, Cadaret failed to apply sales charge discounts to customers' eligible UIT purchases in violation of NASD Rule 2110. Cadaret also failed to include the required legend on customer UIT confirmations in violation of NASD Rule 2830 and 2110.

FACTS AND VIOLATIVE CONDUCT

Background on Unit Investment Trusts

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 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. A UIT sponsor may issue a series of UITs that follow a similar strategy.

A UIT sales charge is typically made up of a combination of (i) a fee which is calculated from the public offering price, often called the initial sales charge, and (ii) fees in fixed dollar amounts, which generally include a creation and development fee and a deferred sales charge. UIT sponsors typically set a maximum sales charge, expressed as a percentage of the public offering price, and comprised of the initial sales charge and the fixed dollar fees. This results in a varying initial sales charge percentage as the fixed costs make up a greater or lesser proportion of the public offering price.

UIT sponsors offer investors a variety of ways to reduce the maximum sales fee charged on a purchase. The two most common sales charge reductions allow investors to reduce the sales fee by increasing the size of their UIT investments or through buying units of a trust using redemption or termination proceeds from another unit trust during the initial offering period. These options are disclosed in prospectuses and are generally known, respectively, as "breakpoints," and "rollover and exchanges." These sales charge reductions vary by sponsor.

UIT breakpoints generally function as a sliding reduction in the sales charge percentage available for purchases beginning at $25,000 or $50,000 (or the corresponding number of units). Investors may aggregate same-day purchases from a sponsor in their own and related accounts to reach a breakpoint.

UIT rollover and exchange discounts are generally offered to investors who use the redemption or termination proceeds from one UIT to purchase another UIT, either from the same UIT series (a rollover) or a different UIT (an exchange). Generally, in order to receive the rollover or exchange discount, proceeds used to purchase the UIT must have come from a UIT transaction that occurred within the previous 30 days. Some sponsors set certain limitations on the nature of the previously held UITs, and others permit investors to receive the discount for the use of proceeds from any UIT within a given time. In both rollovers and exchanges, the customer generally receives a discount of 1% of the public offering price.

On March 31, 2004, FINRA issued Notice to Members 04-26 titled, *Unit Investment Trust Sales*. The Notice reminded broker-dealers that they should develop and implement procedures to ensure customers receive appropriate sales charge discounts for UITs. It further stated that UIT transactions must take place:

> on the most advantageous terms available to the customer. It is the responsibility of firms

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.

Cadaret's Failure to Establish Adequate Written Supervisory Procedures for Sales of UITs

During the Review Period, Cadaret failed to establish an effective supervisory system and written supervisory procedures reasonably designed to ensure that discounts were correctly applied on eligible UIT purchases.

Cadaret did not have written policies or procedures that addressed UITs or informed, registered representatives, trading personnel, or supervisors about the sales charge discounts associated with UITs. Cadaret relied on its trading desk to ensure that clients purchasing UITs received appropriate sales charge discounts, despite the fact that the Firm failed to adequately train and inform trading personnel, and their supervisors, about such discounts. The Firm had no supervisory review to determine whether trading personnel were providing customers with appropriate sales charge discounts, either through periodic reviews or exception reports.

The Firm was unaware that its UIT trading desk had been misinterpreting certain rollover provisions described in UIT prospectuses. The trading desk only provided Cadaret customers with a sales charge discount when proceeds from the termination of an existing UIT investment were invested in a new UIT. The trading desk did not consider or apply a sales charge discount to UIT purchases funded with proceeds from UIT redemptions, a discount these transactions were entitled to from the sponsors of most UITs sold by the Firm. Additionally, the trading desk was unaware that some UITs offered breakpoints beginning at the $25,000 investment level. Cadaret did not consider customer UIT purchases at the $25,000 to be eligible for a volume discount.

Cadaret did not provide adequate guidelines, instructions, policies, or steps for brokers, trading personnel, or supervisors to follow to determine if a customer's UIT purchase qualified for, and received a sales charge discount. The Firm needed to be diligent in providing guidance to brokers, supervisors and trading personnel on UIT sales charge discounts to ensure that customers did not pay more than the appropriate sales charge.

From September 2006 through June 2008, the Firm failed to establish an effective supervisory system and written supervisory procedures reasonably designed to ensure that sales charge discounts were correctly applied on eligible UIT purchases. Based on this failure, Cadaret violated NASD Rules 3010 and 2110.

Cadaret's Failure to Apply UIT Sales Charge Discounts

Between October 2006 and June 2008, the Firm failed to provide eligible customers with appropriate discounts on both UIT rollover and breakpoint purchases. Cadaret failed to identify, and appropriately apply, sales charge discounts in approximately 4.4 percent of the transactions reviewed in a sample of customer purchases in certain top selling UITs. As a result, the Firm overcharged certain customers.

Upon discovery that Cadaret had been incorrectly interpreting the applicability of certain sales charge discounts, the Firm conducted an analysis of all UIT transactions from January 2006 through September 2008, a period longer than the Review Period. As a result of its review, Cadaret identified that customers were overcharged when purchasing UITs through the Firm and, will remediate those customers in accordance with undertakings set forth below.

By failing to identify, apply, and provide customers the benefit of applicable sales charge discounts on eligible UIT purchases, Cadaret violated NASD Rule 2110.

Cadaret's Failure to Include a Deferred Sales Charge Legend on UIT Confirmations

Between September 2006 and June 2008, the Firm sold UITs that imposed a deferred sales charge. This deferred sales charge was generally charged upon redemption, if a customer sold a UIT before the deferred sales charges were imposed. In those UIT confirmations not issued directly by the UIT sponsor, Cadaret failed to ensure that customers' UIT purchase confirmations included the required legend, as set forth in NASD Rule 2830(n), that "On selling your shares, you may pay a sales charge. For the charge and other fees, see the prospectus."

By failing to include the legend explaining that the customer might pay a sales charge on the redemption of UITs that imposed a deferred sales charge on certain UIT purchase confirmations, Cadaret violated NASD Rules 2830(n) and 2110.

SANCTIONS

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

- A censure; and
- A fine of $125,000.

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.

C. Respondent agrees to complete the following undertaking:

1. In accordance with subparagraphs C.2 through 8 below, Cadaret will provide remediation to customers who, during the period of January 1, 2006 through the Notice of Acceptance (the "Effective Date") of this AWC, (the "Relevant Period") purchased unit investment trusts (UITs) and qualified for, but did not receive, the applicable sales charge discount.

2. Within 90 days of the "Effective Date of this AWC, the Cadaret will submit to FINRA a proposed plan of how it will identify and compensate customers who qualified for, but did not receive, the applicable UIT sales charge discounts. At a minimum, the plan must include the following provisions:

   a. The Firm will review all customer UIT purchases effected during the Relevant Period, regardless of dollar amount, to determine if a customer qualified for a breakpoint, rollover, or exchange discount.

   b. When determining a customer's eligibility for a sales charge discount, the Firm must aggregate same-day purchases by a customer, including related accounts, and UIT redemptions and terminations by a customer within 30 days of a UIT purchase.

   c. For each customer who did not receive an appropriate sales charge discount on a UIT purchase, Cadaret will determine the excess sale charge paid by the customers and calculate monies owed, plus interest calculated from the date of the purchase through the date that the overcharge is returned to the customer at the rate set forth in Section 6621(a)(2) of the Internal Revenue Code (26 U.S.C. § 6621(a)(2)).

3. FINRA will review the plan submitted by Cadaret. If the plan reasonably complies with the specific requirements set forth in this AWC, and is in keeping with the general purpose of the undertaking, FINRA will not object to the plan. The date that FINRA notifies the Firm that it does not object to the plan shall be called the Notice Date.

4. In the event FINRA does object to the plan, the Firm will have an opportunity to address FINRA's objections and resubmit the plan within 30 days. FINRA will discuss its objections with the Firm. A failure to resubmit to FINRA a plan that is reasonably designed to meet the specific requirements and general purpose of the undertaking will be a violation of the terms of this AWC.

5. Cadaret shall complete the remediation process within 180 days from the Notice Date.

6. Within 210 days from the Notice Date, Cadaret will submit to FINRA a schedule of all customers identified during the Firm's review as having not received an appropriate sales charge discount. The schedule shall include details of the qualifying purchases and the appropriate discount and total dollar amounts of restitution provided to each customer. The schedule shall be submitted to the FINRA staff signing this AWC and to EnforcementNotice@FINRA.org.

7. Within 210 days from the Notice Date, Cadaret will submit to FINRA, through the FINRA staff signing this AWC, and to EnforcementNotice@FINRA.org, a report that explains how the Firm corrected its UIT systems and procedures, and the results of the Firm's implementation of its plan to identify and compensate qualifying customers, including the amounts and manner of all restitution paid.

8. For good cause shown, and upon receipt of a timely request from Cadaret, FINRA staff may extend any of the procedural dates set forth above.

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 Respondent;

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 General Counsel, 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 Respondent; and

C. If accepted:

1. this AWC will become part of Respondent's permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against Respondent;

2. this AWC will be made available through FINRA's public disclosure program in response to public inquiries about Respondent's disciplinary record;

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 Respondent's right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party.

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 understood 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.

1/22/2010
Date (mm/dd/yyyy)

Cadaret, Grant & Co., Inc.

By: B.L. Johnson, Senior Vice President
(name and title)

Reviewed by:

Gregory P. Gnall
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Accepted by FINRA:

December 17, 2010
Date

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

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