

**UNITED STATES OF AMERICA**  
**Before the**  
**SECURITIES AND EXCHANGE COMMISSION**

**SECURITIES EXCHANGE ACT OF 1934**  
**Release No. 56362 / September 6, 2007**

**ADMINISTRATIVE PROCEEDING**  
**File No. 3-12749**

**In the Matter of**

**COMMONWEALTH  
EQUITY SERVICES, LLP  
d/b/a COMMONWEALTH  
FINANCIAL NETWORK,**

**Respondent.**

**ORDER INSTITUTING ADMINISTRATIVE  
PROCEEDINGS, MAKING FINDINGS, AND  
IMPOSING REMEDIAL SANCTIONS  
PURSUANT TO SECTION 15(b) OF THE  
SECURITIES EXCHANGE ACT OF 1934**

**I.**

The Securities and Exchange Commission (“Commission”) deems it appropriate and in the public interest that public administrative proceedings be, and hereby are, instituted pursuant to Section 15(b) of the Securities Exchange Act of 1934 (“Exchange Act”) against Commonwealth Equity Services, LLP d/b/a Commonwealth Financial Network (“Commonwealth” or “Respondent”).

**II.**

In anticipation of the institution of these proceedings, Respondent has submitted an Offer of Settlement (the “Offer”) which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission’s jurisdiction over Respondent and the subject matter of these proceedings, which are admitted, Respondent consents to the entry of this Order Instituting Administrative Proceedings, Making Findings, and Imposing Remedial Sanctions Pursuant to Section 15(b) of the Securities Exchange Act of 1934 (“Order”), as set forth below.

### III.

On the basis of this Order and Respondent's Offer, the Commission finds<sup>1</sup> that:

#### **Summary**

1. Respondent failed reasonably to supervise Bradford C. Bleidt ("Bleidt") with a view to preventing and detecting his violations of the federal securities laws during the ten-year period that Bleidt was a Commonwealth registered representative from January 1991 to October 2001. During at least this time period, Bleidt defrauded approximately 34 of Respondent's customers by lying about purchases and sales of securities, misappropriating funds, and sending them falsified statements relating to their investment advisory accounts with Bleidt's independent advisory firm.

#### **Respondent**

2. Respondent is a Massachusetts limited liability partnership, headquartered in Waltham, Massachusetts and registered with the Commission since 1979 as a broker-dealer pursuant to Section 15(b) of the Exchange Act and since 1992 as an investment adviser pursuant to Section 203(a) of the Investment Advisers Act of 1940 ("Advisers Act").

3. Respondent is organized as a network of independent contractor registered representatives, most of whom operate out of small independent offices. Certain of these offices act as Offices of Supervisory Jurisdiction ("OSJ") of Respondent.

#### **Other Relevant Person**

4. Bleidt, 53, was a registered representative associated with Commonwealth in a Boston, Massachusetts OSJ from January 18, 1991 until October 9, 2001.

5. On November 12, 2004, the Commission filed a civil injunctive action in the United States District Court for the District of Massachusetts against Bleidt and his investment advisory firm, Allocation Plus Asset Management Company, Inc. ("APAM"), alleging that Bleidt defrauded his investment advisory clients of millions of dollars by leading them to believe their money was invested when in fact he was misappropriating it for his own personal benefit. Many of Bleidt's advisory clients also maintained brokerage accounts at Respondent. In that proceeding, the Commission sought appointment of a receiver, which the court granted. Among other things, the receiver brokered a settlement between Commonwealth and its former customers pursuant to which Commonwealth made a payment to a settlement fund, which the receiver distributed to victims.

---

<sup>1</sup> The findings herein are made pursuant to Respondent's Offer of Settlement and are not binding on any other person or entity in this or any other proceeding.

6. On July 26, 2005, Bleidt pled guilty to federal charges of mail fraud and money laundering in connection with his fraudulent conduct. On December 5, 2005, Bleidt was sentenced to over 11 years of confinement.

### **Bleidt's Misconduct**

7. From 1991 to October 2001, Bleidt misappropriated over \$12 million from approximately 34 customers of Respondent. To perpetrate these misappropriations, he asked his customers to request full or partial liquidation of their brokerage accounts with Respondent, and then to write a check (or in some cases, send a wire) for the amount liquidated to APAM, his investment advisory company. APAM was an independent investment adviser registered under the Advisers Act and not affiliated with or controlled by Commonwealth. APAM did business out of the same office as the OSJ. Bleidt falsely represented to these customers that their money would continue to be invested in securities when, in fact, he misappropriated their funds. Bleidt then deposited these funds into an APAM bank account, of which he had sole control. Bleidt used funds from this APAM account for various business enterprises, including operating a Boston radio station, as well as APAM and a related financial planning firm. He also used the customers' misappropriated funds to pay personal expenses.

8. To further conceal his misappropriations and false representations, Bleidt created and sent his defrauded customers falsified performance reports in the name of APAM that vastly overstated the actual value of the accounts, reflected holdings that did not exist, and reflected purchases and sales of securities that he claimed to have made, but never did.

9. As a result of the conduct described above, Bleidt, during the period that he was associated with Respondent, willfully violated Section 10(b) of the Exchange Act and Rule 10b-5 thereunder, which prohibit fraudulent conduct in connection with the purchase or sale of securities.

### **Respondent's Failure to Supervise**

10. While Bleidt was a registered representative associated with Commonwealth, he also owned the independent office in Boston at which Respondent established an OSJ. Bleidt, not Respondent, hired the OSJ manager as his employee, and only Bleidt had the ability to increase or decrease his salary. Both Bleidt and Commonwealth had the ability to terminate him as OSJ manager. By allowing a person subordinate to Bleidt to supervise Bleidt's activities concerning Respondent's business, Respondent structured its supervisory and compliance functions in a manner that created an inherent risk that Bleidt would not be adequately supervised. The OSJ manager's subordinate status created a conflict of interest that may have compromised his ability to supervise Bleidt in a reasonable manner. This structure may have been a contributing factor in the supervisory failures described below.

### **Failure to Have Reasonable Supervisory Procedures to Respond to Red Flags Related to Outside Business Activities**

11. While associated with Respondent, Bleidt was pursuing other business interests from the same office in which he conducted brokerage activity through Respondent. Respondent's supervisory and compliance personnel were aware that he conducted outside business activities, including two investment advisory businesses and, in the latter part of his association with Respondent, a minority ownership in a radio station. Respondent failed to establish reasonable policies and procedures for responding to red flags related to Bleidt's outside business activities. Respondent's staff received but did not review financial statements for one of Bleidt's businesses, and thus, ignored a red flag that this business was failing such that he was providing significant cash infusions to keep it afloat. In addition, no one at Respondent followed up when Bleidt failed to disclose on Respondent's forms the source of initial and ongoing capital for his radio station venture. In fact, these outside business activities were being funded by Bleidt with misappropriated funds. If Respondent had had in place reasonable policies and procedures to respond to red flags related to Bleidt's outside business activities, it is likely that the firm could have prevented and detected Bleidt's violations of the federal securities laws.

### **Failure to Have Reasonable Supervisory Procedures for Review of Incoming Mail**

12. Incoming mail at the OSJ was sorted – unopened and unreviewed – into registered representatives' mailboxes during the entire time that Bleidt was a registered representative of Respondent. The lack of review of incoming mail enabled Bleidt to receive checks and related correspondence from Respondent's customers who had liquidated their brokerage accounts. These checks were typically in amounts mirroring the amounts liquidated and were sent to Bleidt for the purpose of continuing to invest in securities. Respondent failed to establish reasonable policies and procedures for review of incoming correspondence. For example, Respondent's written procedures did not require central mail opening at the OSJ where Bleidt was located, even though that would have been practicable and feasible to implement. If Respondent had had in place reasonable policies and procedures for review of incoming correspondence, it is likely that the firm could have prevented and detected Bleidt's violations of the federal securities laws.

### **Conclusions**

13. Under Section 15(b)(4)(E) of the Exchange Act, broker-dealers are responsible for reasonably supervising, with a view to preventing violations of the federal securities laws, persons subject to their supervision. Commonwealth was responsible for supervising Bleidt.

14. The Commission has repeatedly emphasized that the “responsibility of broker-dealers to supervise their employees by means of effective, established procedures is a critical component in the federal investor protection scheme regulating the securities markets.” *Dean Witter Reynolds, Inc.*, Exchange Act Rel. No. 46578 (October 1, 2002). Section 15(b)(4)(E) provides that a broker-dealer may discharge this responsibility by having “established procedures, and a system for applying such procedures, which would reasonably be expected to prevent and detect” such violations. “Where there has been an underlying violation of the federal securities

laws, the failure to have or follow compliance procedures has frequently been found to evidence a failure reasonably to supervise the primary violator.” *In the Matter of William V. Giordano*, Exchange Act Rel. No. 36742 (January 19, 1996). In addition to adopting effective procedures for supervision, broker-dealers “must provide effective staffing, sufficient resources and a system of follow up and review to determine that any responsibility to supervise delegated to compliance officers, branch managers and other personnel is being diligently exercised.” *In the Matter of Mabon, Nugent & Co.*, Exchange Act Rel. No. 19424 (January 13, 1983).

15. Because Bleidt violated Section 10(b) of the Exchange Act and Rule 10b-5 thereunder, and Commonwealth failed to establish procedures and systems that would reasonably be expected to prevent and detect such violations, Commonwealth failed reasonably to supervise Bleidt for purposes of Section 15(b)(4)(E) of the Exchange Act.

### **Commonwealth’s Remedial Efforts**

16. In determining to accept the Offer, the Commission considered the remedial acts promptly undertaken by Respondent and cooperation afforded the Commission staff.

## **IV.**

In view of the foregoing, the Commission deems it appropriate and in the public interest to impose the sanctions agreed to in Respondent Commonwealth’s Offer.

Accordingly, pursuant to Section 15(b) of the Exchange Act, it is hereby ORDERED that:

A. Respondent Commonwealth be, and hereby is, censured pursuant to Section 15(b)(4) of the Exchange Act.

B. Respondent shall, within ten days of the entry of this Order, pay disgorgement of \$1 and a civil money penalty in the amount of \$250,000 to the Securities and Exchange Commission. Such payment shall be: (A) made by United States postal money order, certified check, bank cashier's check or bank money order; (B) made payable to the Securities and Exchange Commission; (C) hand-delivered or mailed to the Office of Financial Management, Securities and Exchange Commission, Operations Center, 6432 General Green Way, Stop 0-3, Alexandria, VA 22312; and (D) submitted under cover letter that identifies Commonwealth as a Respondent in these proceedings, the file number of these proceedings, a copy of which cover letter and money order or check shall be sent to David P. Bergers, Regional Director, Securities and Exchange Commission, 33 Arch Street, 23<sup>rd</sup> Floor, Boston, Massachusetts 02110.

C. It is further ordered that, pursuant to Section 308(a) of the Sarbanes-Oxley Act of 2002, a Fair Fund is created for the disgorgement, interest and penalties referenced in paragraph B above. There may be additional funds from other actions against third parties arising from Bleidt’s underlying conduct and violations addressed herein that will be added to the Fair Fund and distributed to injured investors. Regardless of whether any such Fair Fund distribution is made, amounts ordered to be paid as civil money penalties pursuant to this Order shall be treated as

penalties paid to the government for all purposes, including all tax purposes. To preserve the deterrent effect of the civil penalty, Respondent agrees that it shall not, after offset or reduction in any Related Investor Action based on Respondent's payment of disgorgement in this action, argue that it is entitled to, nor shall it further benefit by offset or reduction of any part of Respondent's payment of a civil penalty in this action ("Penalty Offset"). If the court in any Related Investor Action grants such a Penalty Offset, Respondent agrees that it shall, within 30 days after entry of a final order granting the Penalty Offset, notify the Commission's counsel in this action and pay the amount of the Penalty Offset to the United States Treasury or to a Fair Fund, as the Commission directs. Such a payment shall not be deemed an additional civil penalty and shall not be deemed to change the amount of the civil penalty imposed in this proceeding. For purposes of this paragraph, a "Related Investor Action" means a private damages action brought against Respondent by or on behalf of one or more investors based on substantially the same facts as alleged in the Order instituted by the Commission in this proceeding.

By the Commission.

Nancy M. Morris  
Secretary