

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
OFFICE OF HEARING OFFICERS**

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REGISTRATION & DISCLOSURE

Department of Enforcement,

Complainant,

v.

Bruce E. Hammonds,
CRD No. 5030215,

Respondent.

Disciplinary Proceeding
No. 20080139905

Hearing Officer Sara Nelson Bloom

**ORDER ACCEPTING OFFER OF
SETTLEMENT**

Date: December 23, 2009

INTRODUCTION

Disciplinary Proceeding No. 20080139905 was filed on December 3, 2009, by the Department of Enforcement of the Financial Industry Regulatory Authority (FINRA) ("Complainant"). Respondent Bruce E. Hammonds ("Respondent") submitted an Offer of Settlement ("Offer") to Complainant on December 11, 2009. Pursuant to FINRA Rule 9270(e), the Complainant and the National Adjudicatory Council ("NAC"), a Review Subcommittee of the NAC, or the Office of Disciplinary Affairs ("ODA") have accepted the uncontested Offer. Accordingly, this Order now is issued pursuant to FINRA Rule 9270(e)(3). The findings, conclusions and sanctions set forth in this Order are those stated in the Offer as accepted by the Complainant and approved by the NAC.

Under the terms of the Offer, Respondent has consented, without admitting or denying the allegations of the Amended Complaint, 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, to the entry of

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findings and violations consistent with the allegations of the Amended Complaint, and to the imposition of the sanctions set forth below, and fully understands that this Order will become part of Respondent's permanent disciplinary record and may be considered in any future actions brought by FINRA.

BACKGROUND

Respondent entered the securities industry in September 2005 when he joined Merrill Lynch, Pierce, Fenner & Smith, Inc. (the "Firm" or "Merrill Lynch") as a Financial Advisor trainee. In early 2006, Respondent obtained his Series 7 and 66 securities licenses. In December 2007, Respondent became a FA and remained in that position until his termination on June 13, 2008. Throughout Respondent's employment with Merrill Lynch, Respondent was assigned to the Firm's San Antonio branch office. Respondent is not currently employed in the securities industry but remains subject to FINRA jurisdiction pursuant to Article V, Section 4 of the NASD By-laws. Respondent has no prior disciplinary history.

On or about December 11, 2009, an Offer was executed by Respondent, pursuant to which, Respondent consented, without admitting or denying the allegations, to findings that he willfully violated Section 10(b) of the Securities Exchange Act of 1934 ("Exchange Act") and Rule 10b-5 thereunder, and NASD Conduct Rules 2120 and 2110 through the use of misrepresentations and omissions of material fact, and used customer and investor funds for his own personal benefit and to further a Ponzi scheme. Additionally, Respondent consented to findings that he violated NASD Conduct Rules 2330 and 2110 by improperly using and misappropriating the funds of several customers of his member firm employer for his own personal purposes. Respondent also consented to findings that he violated NASD Conduct Rule

2110 by improperly using and misappropriating the funds of an investor for his own personal purposes. Respondent consented to a bar.

FINDINGS AND CONCLUSIONS

It has been determined that the Offer be accepted and that findings be made as follows:

Respondent fraudulently induced nine customers and two non-customers to invest in excess of \$1,000,000 in a Ponzi scheme. Several Firm customers funded their investments in the Ponzi scheme by liquidating positions or withdrawing funds from their Firm accounts in which Respondent was the assigned broker.

Rather than invest the money in securities and/or futures contracts as he represented, Respondent used the 11 customers' and investors' funds to pay for personal expenses as well as to pay investors in the Ponzi scheme under the guise that they were receiving returns on their investments. In furtherance of this scheme to defraud, Respondent provided customers and investors with fictitious account statements reporting growth in their investments.

B&J Partnership

On or about April 20, 2007, Respondent sought the Firm's approval to open a business account on behalf of the B&J Partnership (the "B&J Firm Account"). The B&J Partnership ("B&J") was established by Respondent and another individual before Respondent joined the Firm.

In connection with this request, Respondent completed a new account fact sheet ("fact sheet"), which described B&J as a general partnership whose principal line of business was consulting. The fact sheet stated that B&J's source of wealth and assets for deposit would be from the sales of business or property. Moreover, the fact sheet stated that Respondent was the President.

Respondent also completed a new account application in which he identified himself as the primary contact for the B&J Firm Account and requested check writing privileges, as well as a VISA business access card ("VISA card").

Supervisors of the Firm approved the opening of the account and Respondent was directed to disclose the B&J Firm Account on the Firm's electronic compliance disclosure system as an account in which he had an interest. Respondent, however, never disclosed the B&J Firm Account on the Firm's compliance disclosure system and as a result, no Firm supervisor monitored the activities in the account.

Customer/Investor B&J Transactions -- Fraudulent Inducement to Invest in B&J

Customer AF

AF is a customer of Merrill Lynch, who had an individual retirement account ("IRA") at the Firm. Respondent was the Financial Advisor assigned to the account. In or about March 2008, Respondent solicited AF to invest in B&J, which Respondent told AF was going to be managed by Merrill Lynch. B&J, however, has never been affiliated with Merrill Lynch, nor has Merrill Lynch ever had any ownership interest in B&J.

Respondent misrepresented to AF that B&J traded in oil futures and that AF's investment would double in 30 days. On or about April 1, 2008, AF wrote a check payable to B&J for \$5,000 from his personal bank account, which Respondent deposited in the B&J Firm Account. In or about May 2008, Respondent solicited AF to invest an additional \$10,000 in B&J, promising a return of \$30,000. On or about May 27, 2008, AF wrote a check from his Firm IRA for \$10,000 and provided it to Respondent as an additional investment in B&J.

While his investment was with B&J, Respondent provided AF with fictitious charts showing growth in his investments with B&J.

Customers BM and MW

BM and MW were customers of Merrill Lynch. BM and MW each had an IRA, as well as a joint Cash Management Account ("CMA"). Respondent was the Financial Advisor assigned to these accounts.

In or about March 2008, Respondent recommended that BM and MW each liquidate their annuities and invest in B&J. Respondent misrepresented to BM and MW that they would be investing in S&P Index 500 funds through B&J. Based upon their discussions with Respondent, BM and MW believed that B&J was affiliated with Merrill Lynch. Respondent further misrepresented that BM and MW could expect a 50 percent return and that they would enjoy "big turnarounds." Respondent also promised BM and MW that any surrender fees associated with the liquidation of their annuities would be paid back within a few years.

Based on Respondent misrepresentations, BM and MW each surrendered an annuity and between March and May 2008, they invested a total of \$246,856.91 in B&J.

In or about March and June 2008, Respondent provided checks to BM and MW totaling \$3,975.32 and indicated that these amounts represented a return on their B&J investments. These checks were issued from the B&J Firm Account.

During the time in which BM and MW invested in B&J, Respondent provided them with three fictitious account statements. Two account statements specifically identified B&J as the "B&J Merrill Lynch S&P WCMA Fund." When combined together, all three account statements provided the following information: fictitious net profits, earning distributions to be received from Merrill Lynch, and a representation that losses associated with the surrender of the annuities would be recouped in two years.

Customer KR

KR was a customer of Merrill Lynch who had a CMA and three IRAs at the Firm. Respondent was the Financial Advisor assigned to the accounts. Respondent solicited KR to invest in B&J. Between August 2007 and May 2008, KR invested a total of \$523,400 in B&J. These funds were drawn from her personal bank accounts, as well as her CMA at the Firm.

During the time in which KR invested in B&J, Respondent provided her with four fictitious account statements which reported her prior deposits and reflected fictitious net profits. Two account statements included a graph, which together plotted the monthly growth of profits that KR earned between October 2007 and May 2008. Two account statements falsely stated that KR was receiving a five percent return on her B&J investments.

Between September 2007 and January 2008, KR received from Respondent five checks totaling \$5,795, which Respondent represented was a return on her B&J investment. These checks were all issued from the B&J Firm Account.

Customer CP

CP was a customer of Merrill Lynch, who had a business account with the Firm. Respondent was the Financial Advisor assigned to the account. In or about December 2007, Respondent solicited CP to invest in B&J, which Respondent falsely claimed was a part of Merrill Lynch. Respondent misrepresented to CP that she would be investing in S&P 500 Index funds through B&J. Respondent also misrepresented to CP that B&J was a means of maintaining liquidity so that she could get in and out of the stock market and that she could expect a monthly return of \$3,000 from her investment.

As a result of Respondent's misrepresentation, CP invested approximately \$259,000 in B&J. Pursuant to Respondent's instructions, CP funded her investments in B&J by liquidating her mutual fund positions held in her business account at the Firm.

During the time in which CP invested in B&J, Respondent provided her with six fictitious account statements which reported her prior deposits and reflected fictitious net profits. Five account statements included a graph, which misrepresented the monthly growth of profits that were earned between December 2007 and May 2008.

Between March and May 2008, CP received four checks totaling \$55,349.50 from Respondent, which he represented was a return on her B&J investment. These checks were all issued from the B&J Firm Account.

Customer RJ

RJ is a customer of Merrill Lynch who had two IRAs, two joint accounts and an individual account at the Firm. Respondent was the Financial Advisor assigned to these accounts. In or about May 2008, Respondent solicited RJ to invest in B&J, falsely promising a return of 12 percent if she invested \$10,000. As a result of that solicitation, on or about May 13, 2008, RJ invested \$12,000 in B&J, which Respondent deposited into the B&J Firm Account.

Customer AS

AS is a customer of Merrill Lynch, who had a CMA at the Firm. Respondent was the Financial Advisor assigned to the account. In or about September 2007, Respondent solicited AS to invest in B&J. Respondent misrepresented to AS that she would be investing in S&P 500 Index funds through B&J.

As a result of Respondent's solicitation, between September and October 2007, AS invested a total of \$6,000 in B&J. AS funded her B&J investment by selling mutual fund shares

in her Firm account and withdrawing the proceeds. At or about the time of the sales of her mutual fund shares, AS issued checks against her bank account and Respondent deposited these checks into the B&J Firm Account.

Between September 2007 and April 2008, AS received seven checks from Respondent totaling \$4,249, which were given as a return on her B&J investment. These checks were all issued from the B&J Firm Account.

Customers LT and DT

LT and DT are customers of Merrill Lynch and had two IRA accounts at the Firm. Respondent was the Financial Advisor assigned to these accounts. In or about August 2006, Respondent solicited both LT and DT to invest in B&J. Respondent told LT that B&J was not associated with Merrill Lynch, but falsely represented that LT could earn more money with B&J in comparison with conventional brokerage accounts. Respondent also misrepresented to LT that B&J traded in the futures market and that it would make purchases in the morning of trading days and sell short in the afternoon. In addition, Respondent falsely told LT that he too invested in B&J and that LT was guaranteed to not lose any of his investment principal.

As a result of Respondent's solicitation, between August 2006 and February 2008, LT and DT invested a total of \$10,500 in B&J through the issuance of five checks. Of the two checks that were written in 2006, one check for \$1,000 was issued to B&J and the other check for \$3,000 was issued to Respondent personally. Respondent deposited the \$1,000 check issued to B&J in an account at F. Bank. Respondent deposited three checks into the B&J Firm Account.

During the time in which LT and DT invested in B&J, Respondent provided them with an account statement which reported prior deposits and reflected fictitious net profits. The account

statement also included a graph which misrepresented the monthly growth of profits earned between March 2007 and March 2008 in the B&J investment.

Investor SA

SA is an owner of a gas station and Respondent has been his customer for approximately five years. SA is not a customer of Merrill Lynch. Respondent solicited SA to invest in B&J, which based upon his discussion with Respondent, SA believed was a part of Merrill Lynch. Respondent misrepresented to SA that he would be investing in Brazil, Russia, India and China ("BRIC") exchange traded funds ("ETFs"), S&P 500 index funds and oil futures through B&J.

As a result of Respondent's solicitation, between April 2007 and May 2008, SA invested a total of \$304,295 in B&J, which Respondent deposited in the Firm B&J Account. During the time in which SA invested in B&J, Respondent provided him with several fictitious account statements, which provided purchase dates, corresponding futures contract symbols, amount of futures contracts held long or short, purchase price, sales price, as well as profits and losses. All of the account statements provided by Respondent to SA falsely represented that SA was making a profit.

Between April 2008 and May 2008, SA received six checks totaling \$381,641.50 from Respondent, which was represented as a return on his B&J investment. These checks were all issued from the B&J Firm Account.

Investor SC

SC is the sole proprietor of a home renovation business. She is not a customer of Merrill Lynch. Respondent hired SC to renovate his condominium. In or about March 2008, Respondent told SC that he worked for Merrill Lynch and that if she invested with B&J, which he misrepresented as a Merrill Lynch account, SC could earn a 50 percent return.

On or about April 27, 2008, SC invested \$20,000 in B&J, which Respondent deposited into the B&J Firm Account. In or about May 2008, SC spoke with Respondent about the status of her investment. Respondent misrepresented to SC that she earned \$7,500 on her B&J investment.

Use of Customer/Investor Funds

From April 2007 to June 2008 (the "relevant period"), over \$1,000,000 was deposited into the B&J Firm Account. Most of those deposits came from Firm customers and investors described previously in this Order. Throughout the relevant period, no securities trading occurred in the B&J Firm Account. Instead, account activity primarily consisted of check writing, ATM withdrawals and VISA card charges. Respondent primarily used the B&J Firm Account to pay for personal expenses, including various retail purchases, as well as the purchase of automobiles. The monthly VISA card charges made to the B&J Firm Account exceeded \$5,000, while the average monthly ATM withdrawals from the B&J Firm Account was approximately \$3,000.

Respondent also wrote checks against the B&J Firm Account, that were made payable to Respondent personally, Respondent's wife, as well as to certain investors in B&J, under the guise that they were receiving returns on their B&J investment. The average monthly amount for the checks issued from the B&J Firm Account during the relevant period exceeded \$65,000.

In connection with the sale of securities through B&J, Respondent directly or indirectly, by the use of means or instrumentalities of interstate commerce, or the mails, knowingly or recklessly, (i) employed devices, schemes, or artifices to defraud, (ii) made untrue statements of a material fact or omitted to state a material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading, concerning B&J and the investment of funds, or (iii) engaged in acts, practices, or courses of business which operated or

would operate as a fraud or deceit upon the customers and investors described previously in this Order. Respondent also induced customers and investors to purchase securities by means of any manipulative, deceptive or other fraudulent device or contrivance.

Based upon the foregoing, Respondent willfully violated Section 10(b) of the Exchange Act and Rule 10b-5 thereunder and NASD Conduct Rules 2120 and 2110.

Misappropriation and Improper Use of Customer Funds

In soliciting Firm customers AF, BM, MW, KR, CP, RJ, AS, LT, and DT Respondent represented that their monies would be invested in S&P 500 indexed funds or oil futures. Respondent took the monies given to him by Firm customers for investment purposes and improperly used the funds to pay for personal expenses. Respondent misappropriated customer funds entrusted to him by using these monies for a purpose that was not directed by either the customers or the investors. As a result of Respondent's actions, the Firm reimbursed Firm customers AF, BM, MW, KR, CP, RJ, AS, LT, and DT for investing in B&J.

Based upon the foregoing, Respondent violated NASD Conduct Rules 2330 and 2110.

Misappropriation and Improper Use of the Funds of an Investor

In soliciting investor SC, Respondent represented that her money would be invested in a hedge fund. Respondent took approximately \$20,000 given to him by SC for investment purposes and improperly used it to pay for personal expenses. Respondent misappropriated SC's funds that were entrusted to him by using these monies for a purpose that was not directed by the investor. As a result of Respondent actions, the Firm reimbursed SC for investing in B&J.

Based upon the foregoing, Respondent violated NASD Conduct Rule 2110.

Based on these considerations, the sanctions hereby imposed by the acceptance of the Offer are in the public interest, are sufficiently remedial to deter Respondent from any future misconduct, and represent a proper discharge by FINRA, of its regulatory responsibility under the Securities Exchange Act of 1934.

SANCTIONS

It is ordered that Respondent be barred in all capacities.

The sanctions imposed herein shall be effective on a date set by FINRA staff. Pursuant to FINRA Rule 8313(e), a bar or expulsion shall become effective upon approval or acceptance of this Order.

SO ORDERED.

FINRA

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



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