

**FINANCIAL INDUSTRY REGULATORY AUTHORITY  
LETTER OF ACCEPTANCE, WAIVER AND CONSENT  
No. 2009019823801**

TO: Department of Enforcement  
Financial Industry Regulatory Authority ("FINRA") 05/12/11 4:02 PM

RE: Christopher Belonge  
General Securities Representative  
Registered Principal  
CRD No. 4223871

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Christopher Belonge ("Belonge") 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 him alleging violations based on the same factual findings described herein.

**I.**

**ACCEPTANCE AND CONSENT**

- A. Belonge 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 without an adjudication of any issue of law or fact, to the entry of the following findings by FINRA:

**BACKGROUND**

Belonge entered the securities industry in 2000 as a non-registered employee with a FINRA-registered broker-dealer. He left that broker-dealer in February 2001 and worked for four other FINRA-registered broker-dealers. On January 20, 2005, he joined "Broker-Dealer OA," a FINRA-registered broker-dealer. In January 2007, he left Broker-Dealer OA and joined Pavek Securities, Inc. ("Pavek," or "the Firm"), also a FINRA-registered broker-dealer. While at Pavek, Belonge operated from the Firm's principal place of business in Eau Claire, Wisconsin, and held Series 7 and 24 licenses.

Belonge left Pavek in December 2008. Between that date and March 2011, he worked for three other FINRA-registered broker-dealers. In March 2011 he left the securities industry and has not been associated with a FINRA-registered broker-dealer. Pursuant to Article V, Section 4 of FINRA's Bylaws, Belonge remains subject to FINRA's jurisdiction.

Belonge has no prior disciplinary history in the securities industry.

### **OVERVIEW**

Between January 5, 2007, and December 31, 2008, Belonge was employed with Pavek as a registered representative and, beginning in or about February 2007, when he obtained his Series 24 license, as a general securities principal.

Belonge failed to adequately supervise the Firm's registered representatives' sale of A&O Capital Appreciation Bonds to customers. He also personally sold A&O Capital Appreciation Bonds to two customers without a reasonable basis for recommending the investment. The bonds were issued by various affiliates of A&O Resource Management Ltd. ("A&O"), a company that issued and sold various financial products purportedly collateralized by life insurance policies, and reinsured, or "bonded," thus providing the investor with a guaranteed and secure return. These A&O Capital Appreciation bonds were securities.

Between February 2007 and December 15, 2008, Belonge's responsibilities as a Firm principal included supervision of the Firm's registered representatives, and approving customer transactions in A&O. Belonge's review of transactions included an assessment of whether the transactions were suitable for the customer. Belonge also had responsibility for several aspects of the due diligence review of A&O undertaken by Pavek.

Unbeknownst to Belonge, the principals of A&O misappropriated investor monies for personal expenses, resulting in investors losing their entire investments. The customers to whom Belonge personally sold A&O lost \$315,352.

Belonge failed to adequately discharge his responsibilities as the supervisor and general securities principal, in violation of NASD Rules 3010 and 2110, and recommended the purchase of A&O Capital Appreciation Bonds to customers without having a reasonable basis for such recommendation, in violation of NASD Rules 2310 and 2110.

### **FACTS AND VIOLATIVE CONDUCT**

#### **Background of A&O**

In or about September 2004, A&O began offering Bonded Life Settlements to investors. Between late 2004 and September 2009, more than 800 investors purchased approximately \$100 million worth of life settlement products from A&O. The investments were solicited by A&O's principals as well as various insurance agents and brokers. A&O obtained life settlements from a wholesale life settlement company and began marketing and selling whole and fractionalized interests in those life settlements to investors.

Pavek sold A&O "Capital Appreciation Bonds" – general obligation bonds of the issuer, backed by a pool of underlying life insurance policies. The Capital Appreciation Bonds were purportedly "bonded," or reinsured, with Provident Capital Indemnity, Ltd. ("Provident"), an insurance company located in Costa Rica, acting as the bonding company that would assume ownership of the underlying policy and pay the death benefit to the investor if the insured exceeded their projected life expectancy. Thus, A&O promised that if the insured lived beyond the investment term, the reinsurance company would pay the agreed-to-minimum rate of return and assume ownership of the underlying insurance policy – providing A&O with a way to distinguish their investment product from other life settlement investments. Under their terms, the bonds paid no principal or interest until maturity, when principal and interest accruing at the stated rate was to be paid.

The Capital Appreciation Bonds were sold by Pavek by means of a private placement memorandum or prospectus and, as bonds, were securities. These documents typically stated explicitly that the offerings were intended only for accredited investors. The purchaser would typically execute a subscription agreement documenting the purchase of the bonds, and receive a numbered "Capital Appreciation Bond."

As early as December 2006, unbeknownst to Belonge, A&O principals began transferring approximately \$37 million in customer funds directly into a bank account, which they used as a "slush" fund to pay for business expenses, payroll expenditures, commissions and personal expenses. Eventually, all investor funds were depleted, leaving many life insurance policy premiums for the life settlements unpaid. On September 2, 2009, A&O filed for relief under Chapter 11 of the Bankruptcy Code. On January 7, 2010, the appointed Bankruptcy Trustee filed a 25-count complaint, which alleged fraud and breach of fiduciary duty against A&O, its related entities, and its principals. A&O is still in bankruptcy.

### **Failure to Supervise**

NASD Conduct Rule 3010 requires each member to establish and maintain a system to supervise the activities of each representative and associated person that is reasonably designed to achieve compliance with applicable securities laws and regulations, and with NASD Rules. The standard for determining if a supervisor failed to discharge assigned supervisory duties is whether their conduct was reasonable under the attendant circumstances. A supervisor must respond reasonably when confronted with indications that suggest a registered representative may be engaging in improper activity.

Failing to supervise also violates NASD Conduct Rule 2110, which provides that a member, "in the conduct of his business, shall observe high standards of commercial honor and just and equitable principles of trade."

In February 2007, the Firm delegated, and Belonge assumed, certain supervisory responsibilities. Revisions to the Firm's written supervisory procedures in January 2008

formally listed Belonge as the Firm's principal responsible for registered representative supervision. Belonge's supervisory responsibilities included monitoring and supervising the suitability of sales to Firm customers of the A&O Capital Appreciation Bonds, and his duties and functions included reviewing and approving customer A&O transactions on behalf of the Firm.

Belonge communicated his role and responsibilities for A&O to the Firm's registered representatives in an April 2007 email, in which he "reminded" them that "all paperwork" for "ALL TRANSACTIONS, including introducer business, with A&O Life Funds ... MUST" be sent through him.

Belonge approved the account documentation as principal, or reviewed documentation as principal and failed to stop the sale of the A&O securities, as to at least three customers for whom the product was unsuitable. These customers included:

#### *Investor HG*

Investor HG was 81 years old at the time of her investment in A&O Capital Appreciation Bonds. She purchased \$150,733 of A&O Bonded Life Settlements in June 2007. On her new account form, completed in May 2007, Investor HG disclosed a net worth of \$400,000, annual income of \$20,000, and a liquid net worth of \$200,000 – thus, she was not an accredited investor. Investor HG's purchases constituted 37.7% of her total net worth and, even if A&O had not been a fraud, she would have received no cash flow from the investment until she was 87 years old. Belonge inappropriately approved the transaction as Field Office Principal.

#### *Investors GH and NH*

At the time of their investment in A&O Capital Appreciation Bonds, married investors GH and NH were each 70 years old. They purchased \$50,000 of A&O Life Funds 5.1 in November 2007. In their new account form, Investors GH and NH disclosed a net worth of \$400,000, annual income of \$50,000, and a liquid net worth of \$50,000. They were not accredited investors. Their A&O investment constituted 12.5% of their total net worth and, even if A&O had not been a fraud, they would have received no cash flow from the investment until they were 76 years old. The Pavak registered representative responsible for this sale sent the package of new account forms and subscription documents to Belonge for review and approval, however, no principal of the Firm signed off on the new account form.

#### *Investor JC*

Investor JC was 57 years old at the time of his purchase of A&O Capital Appreciation Bonds. He purchased \$165,657 of A&O Life Funds 5.2 in January 2008. In his new account form, completed in August 2007, he disclosed a net worth of \$400,000, annual income of \$105,000, and a liquid net worth of \$30,000 – thus, he was not an accredited investor. His A&O investment constituted 41% of his total net worth. Belonge inappropriately approved the transaction.

Accordingly, Belonge failed to adequately supervise the Firm's sales of A&O Capital Appreciation Bonds with respect to suitability. The product was intended almost entirely for accredited investors. Despite this admonition, Belonge failed to take adequate steps to ensure that the product was being marketed and sold to accredited, or otherwise suitable investors; failed to issue effective instructions to Firm registered representatives regarding the need to determine whether investors were accredited; and failed to undertake any review of whether A&O was suitable for Pavek customers. Belonge also failed to implement any safeguards to ensure that the Firm distinguished accredited from non-accredited investors, resulting in the Firm marketing and selling the A&O product to any customer who expressed an interest.

As a result of the foregoing, Belonge violated NASD Rules 3010(a) and 2110.

### **Unsuitable Recommendations to Customers**

NASD Rule 2310 requires that a registered representative "have reasonable grounds for believing that the recommendation is suitable for [his] customer upon the basis of the facts, if any, disclosed by such customer as to his other security holdings and as to his financial situation and needs." "Reasonable basis" suitability requires a broker to have an adequate and reasonable basis for any recommendation that he makes. The reasonable basis test relates only to the particular recommendation, rather than to any particular customer. Pursuant to *NASD Notice to Members 05-59*, determining reasonable basis suitability includes conducting appropriate due diligence to ensure that persons who recommend a product understand its nature, as well as its risks and rewards.

In or about January 2006, Belonge began his evaluation of A&O, together with another registered representative ("Registered Rep 2"). At that time, Belonge and Registered Rep 2 were associated with Broker-Dealer OA. During his time at Broker-Dealer OA, Belonge and Registered Rep 2 participated in three meetings with A&O principals and conducted cursory research on the mechanics of the life settlement process and industry.

In late 2006, Belonge and Registered Rep 2 proposed to Broker-Dealer OA that it add A&O to the group of products it sold to customers. Broker-Dealer OA did not agree to this proposal. As a result, Belonge and Registered Rep 2 left Broker-Dealer OA, and joined Pavek, which assigned Belonge responsibility for the Firm's due diligence on A&O. However, Belonge and Registered Rep 2 did little due diligence on A&O during their time at Pavek, adding only marginally to the insufficient efforts they had undertaken during their association with Broker-Dealer OA.

The due diligence process on which Belonge depended as a registered representative and in which he engaged as a Firm principal missed or ignored critical issues raised by the offerings of A&O Capital Appreciation Bonds that, had they been reviewed objectively, would have led to additional cause for concern about the *bona fides* of A&O and its principals. No independent background check was performed on one of the three key principals of A&O. Belonge also performed no follow-up review on a background questionnaire that indicated that another key A&O principal had no experience in either

securities or life settlements, resulting in the failure to discover that the principal had been charged with felony forgery in April 2004.

As to Provident, the purported “bonding” company that was indispensable to A&O being able to repay its Capital Appreciation Bonds, Belonge learned and ignored the fact that, in or about November 2006, the Commissioner of Insurance for the State of Texas issued a cease and desist order against Provident, finding, among other things, that the company was engaged in the unlicensed sale of insurance, and that such conduct was “fraudulent, illegal, ....[and] creat[ed] an immediate danger to public safety.” Belonge further failed to discover that at no time was Provident licensed to sell insurance in the United States.

Belonge also failed to engage in adequate due diligence with respect to the Capital Appreciation Bonds and their terms. Other than self-serving representations made by the A&O principals themselves, Belonge had no understanding as to how A&O obtained the insurance policies that collateralized the Capital Appreciation Bonds, or whether in fact A&O had obtained such policies. He also:

- Never knew or understood why different bond issues carried dramatically different interest rates, or why one carried a facially dubious interest rate of 15%.
- Never evaluated the inconsistency between a specifically-stated rate of interest, and the statement in the offering documents that, “[R]ates of return on an investment in life settlement cannot actually be calculated since the longer a senior insured lives, the lower the rate of return on your investment will be.”
- Took no steps to determine how A&O would achieve diversification of policy investments to control risk; and failed to inquire about policies A&O had in place to insure payments were being made on insurance policies that secured the Capital Appreciation Bonds.
- Performed no due diligence on the claims in the primary sales brochure A&O submitted to Pavek, and ultimately to Pavek registered representatives.

While the Firm approved the product for sale, Belonge’s knowledge of, and active participation in, the due diligence process made reliance on the Firm’s approval unwarranted in his registered representative capacity. Knowing that the Firm’s due diligence on the product was insufficient, Belonge personally made three sales of A&O to two Firm customers. One of these customers invested \$75,000 in A&O in August 2007, and \$58,864 in January 2008, for which Belonge was paid commissions of \$13,755. The other customer invested \$191,488 in A&O in November 2007, for which Belonge was paid commissions of \$21,064.

As a result of the foregoing, Belonge lacked a reasonable basis for recommending investments in A&O to Firm customers, in violation of NASD Rules 2310 and 2110.

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

- a. A six-month suspension from associating with any FINRA registered broker-dealer in any principal capacity and a four-month suspension from associating with any FINRA registered broker-dealer, to be served concurrently; and
- b. A fine of \$54,819, which includes the disgorgement of commissions received of \$34,819.

Belonge understands that if he is barred or suspended from associating with any FINRA member, he becomes subject to a statutory disqualification as that term is defined in Article III, Section 4 of FINRA's By-Laws, incorporating Section 3(a)(39) of the Securities Exchange Act of 1934. Accordingly, Belonge may not be associated with any FINRA member in any capacity, including clerical or ministerial functions, during the period of the bar or suspension (see FINRA Rules 8310 and 8311).

The fine shall be due and payable either upon reassociation with a member firm following the six-month suspension noted above, or prior to any application or request for relief from any statutory disqualification resulting from this or any other event or proceeding, whichever is earlier.

Belonge specifically and voluntarily waives any right to claim that he is unable to pay, now or at anytime hereafter, the monetary sanction(s) imposed in this matter.

The sanctions imposed herein shall be effective on a date set by FINRA staff.

## **II.**

### **WAIVER OF PROCEDURAL RIGHTS**

Belonge specifically and voluntarily waives the following rights granted under FINRA's Code of Procedure:

- A. To have a Complaint issued specifying the allegations against him;
- 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, Belonge specifically and voluntarily waives any right to claim bias or prejudice 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.

Belonge 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**

Belonge 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 him; and
- C. If accepted:
1. this AWC will become part of his permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against him;
  2. this AWC will be made available through FINRA's public disclosure program in response to public inquiries about his 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. Belonge 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. Belonge 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 his right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party. Belonge certifies that he has read and understands all of the provisions of this AWC and has been given a full opportunity to ask questions about it; that he 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 him to submit it.
- D. Belonge may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. Belonge understands that he 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.

Belonge certifies that he has read and understood all of the provisions of this AWC and has been given a full opportunity to ask questions about it; that he 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 him to submit it.

24 MAR 12  
Date

Christopher Belonge  
Christipher Belonge

Accepted by FINRA:

May 2, 2012  
Date

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

Susan Light  
Susan Light  
Senior Vice President &  
Chief Counsel  
FINRA Department of Enforcement  
1 World Financial Center  
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