

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES EXCHANGE ACT OF 1934
Release No. 51589 / April 21, 2005

ADMINISTRATIVE PROCEEDING
File No. 3-11908

In the Matter of

CHARLES J. ADDEO,

Respondent.

**ORDER INSTITUTING ADMINISTRATIVE
AND CEASE-AND-DESIST PROCEEDINGS,
MAKING FINDINGS, AND IMPOSING
REMEDIAL SANCTIONS AND A CEASE-
AND-DESIST ORDER PURSUANT TO
SECTIONS 15(b) AND 21C 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 and cease-and-desist proceedings be, and hereby are, instituted pursuant to Sections 15(b) and 21C of the Securities Exchange Act of 1934 (“Exchange Act”) against Charles J. Addeo (“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 him and the subject matter of these proceedings, Respondent consents to the entry of this Order Instituting Administrative and Cease-and-Desist Proceedings, Making Findings, and Imposing Remedial Sanctions and a Cease-and-Desist Order Pursuant to Sections 15(b) and 21C 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 finds¹ that:

Respondent

1. Charles J. Addeo, age 43, was the vice president of mutual funds for Fiserv Securities, Inc. ("FSI"), a registered broker-dealer, from 1995 until April 2004. Addeo was responsible for overseeing the day-to-day operations of mutual fund trading in FSI's Philadelphia office. Addeo has never been licensed to sell securities.

Other Relevant Entity

2. Fiserv Securities, Inc., headquartered in Philadelphia, Pennsylvania, registered with the Commission as a broker-dealer in October 1983. FSI provides securities clearing services for approximately 140 introducing brokers. In addition, between August 2002 and October 2003, FSI provided direct brokerage services to two hedge funds.

Overview

3. Between August 2002 and October 2003, two employees at FSI's New York City office, Thomas J. Gerbasio and Raymond L. Braun, Jr., engaged in an illegal market timing scheme involving deceptive trading practices on behalf of two FSI hedge fund customers.² Additionally, between December 2000 and October 2002, another employee, who was a senior vice president in the Mutual Fund Department of FSI's Philadelphia office, engaged in a market timing scheme in his personal trading accounts. Respondent Addeo, an FSI vice-president, participated in both market timing schemes in violation of the antifraud provisions of the federal securities laws.³

¹ 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.

² Market timing includes: (i) frequent buying and selling of shares of the same mutual fund or (ii) buying or selling mutual fund shares in order to exploit inefficiencies in mutual fund pricing. Market timing, while not illegal per se, can harm other mutual fund shareholders because it can dilute the value of their shares, if the market timer is exploiting pricing inefficiencies, or disrupt the management of the mutual fund's investment portfolio and can cause the targeted mutual fund to incur costs borne by other shareholders to accommodate frequent buying and selling of shares by the market timer.

³ Simultaneously with the institution of this Order, the Commission has filed a civil injunctive action against Gerbasio and Braun in United States district court.

Fraudulent Acts of Gerbasio, Braun, the Senior Vice President and Addeo

Gerbasio and Braun

4. In August 2002, FSI acquired the clearing operations of Investec Ernst & Co. (“Investec”), a broker-dealer located in New York. Part of this acquisition consisted of a market timing business run by then-Investec employees Gerbasio and Braun. This market timing business involved, primarily, Investec’s provision of brokerage services to two hedge funds (together, the “Direct Customers”). These Direct Customers traded directly through accounts at Investec, rather than through an introducing broker. The Direct Customers’ trading activity through FSI consisted exclusively of market timing transactions. Between August 2002 and October 2003, the Direct Customers executed 37,965 market timing transactions through their FSI accounts, which were serviced, handled, and advised by Gerbasio and Braun.

5. Over time, FSI received hundreds of letters and e-mails from mutual funds questioning or objecting to the Direct Customers’ trading practices. Some of these notices informed FSI that trades were rejected due to market timing in violation of the fund’s prospectus, while other communications informed FSI that the fund had perceived a pattern that could be regarded as market timing or inquired as to the intentions of the customer. Some notices requested that FSI prevent an identified customer or broker from entering further market timing trades.

6. In order to retain the Direct Customers’ market timing business, Gerbasio and Braun engaged in a series of acts and practices designed to conceal the Direct Customers’ market timing activity from the mutual funds that had objected to the trading. These efforts included: misrepresenting their customers’ intentions to engage in market timing in response to inquiries by the funds; trading through 62 separate accounts to conceal customer identities; entering trades in amounts unlikely to be detected and/or perceived as market timing; recommending that market timing customers invest in those funds that were slow to identify market timing; and advising their customers on strategies they could use to conceal their market timing from funds that objected to this trading.

Senior Vice President

7. Between April 2000 and October 2002, when FSI terminated his employment, the senior vice president in charge of FSI’s Mutual Fund Department in Philadelphia engaged in deceptive mutual fund trading for his own benefit through his personal accounts at FSI. During this time, the senior vice president engaged in over 1,000 market timing transactions through his FSI accounts, earning profits of \$922,000.

8. To conceal his market timing from the mutual funds and prolong his ability to trade in funds which were opposed to market timing, the senior vice president employed some of the same deceptive practices used by Gerbasio and Braun, including dividing his trades between accounts to conceal his identity; breaking up large transactions into a series of smaller trades to avoid detection; and repeatedly ignoring fund requests to cease trading.

Addeo

9. Addeo was responsible for the day-to-day operations of the Mutual Fund Department in FSI's Philadelphia office which provided clearing services for introducing brokers. Until October 2002, Addeo reported to the senior vice president. Following the acquisition of Investec, Addeo reported to Gerbasio, and had frequent contact with Braun and other FSI employees servicing the Direct Customer accounts. Addeo participated in the fraudulent trading practices of Gerbasio, Braun, and the senior vice president, and also enabled the market timing to continue despite having created the appearance of restricting such trading.

10. Addeo received correspondence from the mutual funds on a daily basis rejecting market timing trades, and requesting that FSI cease future market timing trading. In response to the funds' repeated objections to market timing, Addeo created a list, known as the Restricted Funds List, which tracked the names of fund families that opposed market timing. Addeo, or others acting on his instruction, circulated the Restricted Funds List to introducing brokers to notify those firms that their clients should not engage in frequent trading in any of the mutual fund families listed on the Restricted Funds List.

11. In response to complaints from introducing brokers about the breadth of the Restricted Funds List, Addeo replaced the Restricted Funds List with a more detailed list, known as the Restricted Funds Log, at the end of 2002. Unlike the Restricted Funds List, the Restricted Funds Log only restricted specific accounts from trading in particular mutual funds within a fund family. In practice, the Mutual Fund Department compared the introducing brokers' trades with the Restricted Funds Log and cancelled any prohibited market timing trades.

12. Addeo intentionally exempted the senior vice president from the only restrictions FSI had in place to comply with the mutual funds' requests to cease market timing. Addeo failed to apply the Restricted Funds List or Restricted Funds Log to the senior vice president's trades, enabling him to continue trading in funds that he knew opposed this trading activity. Additionally, Addeo frequently entered the senior vice president's market timing trades for him, when instructed to do so.

13. Addeo, at Gerbasio's instruction, intentionally exempted the Direct Customers from the only restrictions FSI had in place to comply with the mutual funds' requests to cease market timing. Addeo did not apply the Restricted Funds List or Restricted Funds Log to the Direct Customers' trades, enabling them to continue trading in funds that he knew opposed this trading activity.

Violations

14. As a result of the conduct described above, Addeo 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.

Undertakings

In determining to accept the Offer, the Commission has considered the following undertakings by Addeo:

15. Ongoing Cooperation by Addeo. Addeo has undertaken to cooperate fully with the Commission in any and all investigations, litigations or other proceedings relating to or arising from the matters described in this Order. In connection with such cooperation, Addeo has undertaken:

A. To produce, without service of a notice or subpoena, any and all documents and other information reasonably requested by the Commission's staff;

B. To be interviewed by the Commission's staff at such times as the staff reasonably may request and to appear and testify truthfully and completely without service of a notice or subpoena in such investigations, depositions, hearings or trials as may be requested by the Commission's staff; and

C. That in connection with any testimony of Addeo to be conducted at deposition, hearing or trial pursuant to a notice or subpoena, Addeo:

i. Agrees that any such notice or subpoena for his appearance and testimony may be served by regular mail on his counsel, Gregory Miller, Esq., Miller, Alfano & Rasponi, P.C., 1818 Market Street, Suite 3402, Philadelphia, PA 19103; and

ii. Agrees that any such notice or subpoena for his appearance and testimony in an action pending in a United States District Court may be served, and may require testimony, beyond the territorial limits imposed by the Federal Rules of Civil Procedure.

16. Respondent shall provide to the Commission, within 30 days after the end of the 12 month suspension period described in Section IV below, an affidavit that he has complied fully with the sanctions described therein.

IV.

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

Accordingly, pursuant to Sections 15(b) and 21C of the Exchange Act, it is hereby ORDERED that:

A. Respondent Addeo shall cease and desist from committing or causing any violations and any future violations of Section 10(b) of the Exchange Act and Rule 10b-5 thereunder.

B. Respondent Addeo shall, within 30 days of the entry of this Order, pay a civil penalty in the amount of \$30,000 to the United States Treasury. 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 Addeo as a respondent in these proceedings, the file

number of these proceedings, a copy of the cover letter and money order or check shall be sent to Arthur S. Gabinet, Securities and Exchange Commission, Philadelphia District Office, Mellon Independence Center, 701 Market Street, Suite 2000, Philadelphia, PA 19106.

C. Respondent Addeo be, and hereby is, suspended from association with any broker or dealer for a period of 12 months, effective on the second Monday following the entry of this Order.

D. Respondent Addeo shall comply with his undertaking as enumerated in Section III.16. above.

By the Commission.

Jonathan G. Katz
Secretary