



INVESTMENT DEALERS
ASSOCIATION OF CANADA

bulletin



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Discipline Discipline Penalties Imposed on Jerry Russell Johnson; Violations of By-law, 29.1

Person Disciplined A Hearing Panel appointed pursuant to IDA By-law 20 has imposed discipline penalties on Jerry Russell Johnson, at all material times an Approved Person employed at the Lethbridge, Alberta, sub-branch of Union Securities Ltd., a member of the IDA.

By-laws, Regulations, Policies Violated Following an expedited hearing held on October 19, 2005, in Calgary, Alberta, a Hearing Panel found that Jerry Russell Johnson engaged in personal financial dealings with clients and non-clients without informing and receiving permission from his firm to do so, such conduct being in violation of By-law, 29.1.

Penalty Assessed The Hearing panel expelled Mr. Johnson from membership in the Association.

Summary of Facts From sometime in 2003 until August of 2005 Mr. Johnson entered into numerous loan agreements with individuals predominantly in the Lethbridge, Alberta area. These loan agreements featured interest payable at 7% to 9% per month. The Hearing Panel cited two specific examples of these loan agreements:

- Pursuant to a “Loan Agreement” dated October 1, 2004, a client lent Mr. Johnson \$20,000 and Mr. Johnson promised to pay the client 24 consecutive monthly payments—\$2,000 monthly for 23 months, followed by a final payment of \$22,000.
- Pursuant to an “Investment Agreement” dated November 5, 2004, another client invested \$16,000 and Mr. Johnson promised to pay the client 12 consecutive monthly payments—\$1,280 monthly for 11 months, followed by a final payment of \$17,280.

It is estimated Mr. Johnson raised approximately one million dollars in this manner. Of this amount, approximately \$400,000 was raised from clients.

Mr. Johnson could not demonstrate any legitimate investment into which he was placing the borrowed funds and which would provide the returns necessary to meet his obligations pursuant to the loan agreements. He did indicate he invested \$400,000

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CDN in an offshore, internet-based investment known as Fast Market Ltd. which promised a return of 2.5% per day.

The Hearing Panel found that “Mr. Johnson acknowledged that the people that loaned him money were not aware that he has invested the bulk of that money with Fast Market Ltd.”

The Hearing Panel found that Mr. Johnson admitted using some of the money he borrowed for personal use. He also admitted that the interest and loan payments were being made with borrowed funds received from other investors.

The Hearing Panel found:

During the course of giving his sworn statement to Association staff, Mr. Johnson was asked whether he was familiar with the term “Ponzi scheme”. He denied having any idea what it meant. Ponzi schemes are a type of fraud where investors are attracted by guarantees of large-but-deferred returns on their investments. Large returns are actually paid on early investments, typically from money received from subsequent investors. The objective is to induce a massive influx of further investors whose eagerness for large returns causes them to overlook suspicious or improbable elements of the investment. Such schemes inevitably collapse because there is no real underlying investment. Although the Panel is not a position to make any finding on this point, we are unable to ignore the alarming similarity between Mr. Johnson’s admitted activities and a Ponzi scheme. We must also express our dismay at Mr. Johnson’s offshore investment of virtually the entire remaining amount of the money he has borrowed.

Mr. Johnson was previously disciplined by the Association. In a Settlement Agreement dated November 14, 2003, Mr. Johnson agreed that he had entered into personal financial dealings with clients without informing, or receiving permission to do so, from his firm. Further details can be found in Association Bulletin #3215.

As a result of these recent activities, Mr. Johnson’s employment was terminated by Union Securities Ltd. effective June 15, 2005 and he is not currently employed with any member firm of the Association.

The Hearing Panel concluded:

By secretly borrowing from clients and thereby repeating the misconduct for which he was previously sanctioned by the Association, Mr. Johnson has demonstrated that he is ungovernable. The deliberate nature and large scale of Mr. Johnson’s misconduct are significant aggravating factors. Mr. Johnson’s use of borrowed money to pay earlier lenders and his subsequent offshore investment of borrowed money also demonstrate the need for a penalty that will protect the investing public from Mr. Johnson. We therefore order that Mr. Johnson be expelled from the Association.

Kenneth A. Nason
Association Secretary