



bulletin



Contact:
Douglas Walker
Chief Enforcement Counsel
(416) 943-6909

For distribution to relevant parties within your firm

BULLETIN # 2556
January 22, 1999

Discipline

Discipline Penalties Imposed on Vernon George Michael - Violation of Regulation 1300.1 (c)

Person Disciplined	The Ontario District Council of the Investment Dealers Association of Canada has imposed discipline penalties on Vernon George Michael , at the relevant time a Registered Representative of Midland Walwyn Capital Inc. (now Merrill Lynch Canada Inc.), a Member of the Association.
By-laws, Regulations, Policies Violated	On January 21, 1999, the District Council considered, reviewed and accepted a settlement agreement signed by Mr. Michael. The agreement had been negotiated with him by staff of the Enforcement Division of the Association. Pursuant to the settlement agreement, Mr. Michael admitted that he failed to exercise due diligence to ensure that the recommendations made for the account of a client were appropriate for the client and in keeping with the client's investment objectives, contrary to Regulation 1300.1(c).
Penalty Assessed	The discipline penalty assessed against Mr. Michael is a fine in the amount of \$8,000.00 and he must re-write and pass the Conduct and Practices Handbook examination. In addition, Mr. Michael is required to pay \$5,000.00 toward the Association's costs of investigation of this matter.
Summary of Facts	<p>On or about October 7, 1993, Mr. Michael was advised by a client that she had received an insurance settlement of approximately \$130,000.00. She advised Mr. Michael that she intended to use the insurance proceeds to purchase a house in the near future.</p> <p>Mr. Michael recommended and then effected 3 separate, highly leveraged, short term trades in the client's account involving the purchase and sale of \$500,000 Province of Ontario bonds on margin. On each occasion, the bond purchases produced a debit balance in the client's account in excess of \$400,000.00. The excessive debit balance and the undue concentration of the client's capital in a single type of security was not appropriate for the client and was not in keeping with the client's investment objectives,</p>

contrary to Regulation 1300.1(c).

A profit was realized from the first 2 of the 3 highly leveraged short term bond trades. The third bond purchase occurred on January 27, 1994. Around March of 1994, the client advised Mr. Michael that she had purchased a house with a closing date of August 1994. Due to the volatility in interest rates in Canada and the U.S. beginning around February 1994 and throughout the remainder of that year, the client suffered a loss of \$89,500.00 when the bonds were sold in August to facilitate the house purchase.

In determining the appropriate penalty, the District Council took into account that the misconduct involved a single client and a limited number of transactions. Mr. Michael had no prior record of regulatory misconduct and Mr. Michael had to repay \$89,500.00 to the Member for compensation paid out to the client.

Mr. Michael remains employed by Merrill Lynch Canada Inc., a Member of the Association, as a Registered Representative and Branch Manager in the North York, Ontario branch office.

Lyn M. Gilchrist
Association Secretary