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For distribution to relevant parties within your firm

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Discipline

Discipline Penalties Imposed on Stanley Nathanson – Violation of By-law 29.1 and Part C, Section IV of the Conduct and Practices Handbook, General Rules of Conduct

Person Disciplined The Ontario District Council of the Investment Dealers Association of Canada has imposed discipline penalties on Stanley Nathanson, at the relevant times a Registered Representative with Merrill Lynch Canada Inc., a member of the Association.

By-laws, Regulations, Policies Violated On November 14, 2002 the District Council reviewed and accepted a settlement agreement negotiated with the Association’s Enforcement Department Staff. In the settlement agreement, Mr. Nathanson acknowledged that he:

1. between January 1997 and November 1997, he failed to observe high standards of ethics and conduct and engaged in conduct unbecoming and detrimental to the public interest by executing approximately 72 unauthorized trades in the account of his client BI Ltd. for the purpose of generating commissions and which resulted in financial detriment to the client, contrary to By-law 29.1; and
2. in and around November 1997, he failed to observe high standards of ethics and conduct and engaged in conduct unbecoming and detrimental to the public interest by making an offer to compensate his client BI Ltd. in the amount of US\$200,000 for losses he incurred in the account as a result of the unauthorized trading described above, with such offer being made without the knowledge, consent or authorization of his Member Firm, contrary to By-law 29.1 of the Association and Part C, Section IV of the Conduct and Practices Handbook, General Rules of Conduct.

Penalty Assessed The discipline penalties assessed against Mr. Nathanson are a fine of \$60,000; a requirement that, as a condition of continued approval in any capacity with a Member of the Association, he re-write the Conduct & Practices Handbook examination within six (6) months; suspension from acting in any registered capacity for one (1) month

commencing December 1, 2002; he file monthly supervision reports for twelve (12) months; and potential suspension without notice if he fails to comply in any way with the penalties awarded. Finally, he has been ordered to pay the Association's costs in an amount of \$4,900.

It was taken into consideration that he had made restitution in the amount of \$200,000 to his former client.

Summary
of Facts

At all relevant times, Mr. Nathanson was employed as a Registered Representative with Merrill Lynch Canada Inc.

Mr. Nathanson was terminated from Midland Walwyn in 1998. The Uniform Termination Notice (UTN) relating to Mr. Nathanson's termination indicates that he was dismissed for cause for discretionary trading in one client account and for making an unauthorized offer to compensate this client. The account to which the UTN refers belonged to Mr. Nathanson's corporate client BI Limited ("BI Limited"). Mr. Nathanson opened the BI Ltd. account in February 1994 after receiving a referral from one of his clients, LK. At all material times Mr. Nathanson was the registered representative responsible for the BI Ltd. account. BI Ltd.'s corporate resolution indicated that trading authority on behalf of the company was given to JD and LS. However Mr. Nathanson only ever received trading instructions for this corporate account from his client LK.

In November 1997, LK contacted Mr. Nathanson and Midland Walwyn management to indicate there was less money in the BI Ltd. account than he expected and also that there were trades in the account which neither he, nor anyone at BI Ltd., had authorized. Mr. Nathanson, unaware that Midland Walwyn management had already been contacted, asked to meet with LK to discuss these issues. On November 28, 1997 Mr. Nathanson met with LK and admitted to trading in the BI Ltd. account upon his own initiative and without any authorization. Unbeknownst to Mr. Nathanson, LK was tape recording their conversation.

During their meeting Mr. Nathanson signed a hand-written promissory note which stated the following: I Stanley Nathanson accept full liability for the losses incurred in a/c NYO – 177743 (BI Ltd.) resulting from the trading in S&P Futures positions. The final amount to be determined will be approximately \$200,000 US Dollars. I hereby commit to a repayment schedule which would result in the complete repayment of the amount over the next 18 months. According to Mr. Nathanson, during the meeting he attempted to have LK agree to the repayment arrangement without notifying Midland Walwyn management about the unauthorized trading. LK informed him that this was not possible since the Member firm had already been informed about the unauthorized trades. Mr. Nathanson did not disclose the existence of the promissory note to Member firm management. The document only came to Midland Walwyn's attention when it, and the tape recorded conversation between LK and Mr. Nathanson, were provided to the Member pursuant to BI Ltd.'s formal complaint regarding the unauthorized investments.

In addition to the admissions contained in the above-noted tape recording, Mr. Nathanson also provided Midland Walwyn written and verbal confessions wherein he admitted to unauthorized trading in the BI Ltd. account. In his compelled statement to

the Association, Mr. Nathanson also admitted his responsibility for the unauthorized trades. He indicated that he executed them to generate commissions because business was slow and that he had picked the BI Ltd. account because it had a lot of money and there would be no margin calls. BI Ltd. was fully compensated for the losses incurred in its account by Mr. Nathanson. In an out of court settlement made December 11, 1998, Mr. Nathanson paid BI Ltd. approximately \$200,000 CDN while Midland Walwyn paid the remainder of BI Ltd.'s losses.

Kenneth A. Nason
Association Secretary