



Mutual Fund Dealers Association of Canada
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MFDA Bulletin

Enforcement

For Distribution to Relevant Parties Within your Firm

MFDA imposes lifetime ban and \$10,000 fine on Donald Kent Coleman

Nature of Proceeding A Hearing Panel of the Ontario Regional Council of the Mutual Fund Dealers Association of Canada (“MFDA”) has imposed disciplinary penalties on Donald Kent Coleman, a former Approved Person of the MFDA.

By-Laws, Rules, Policies Violated Following a hearing on March 21, 2006, the Hearing Panel found that:

1. Coleman failed to deal fairly, honestly and in good faith with two clients by misappropriating from them the total amount of approximately \$18,234, contrary to MFDA Rule 2.1.1.
2. Coleman failed to deal fairly, honestly and in good faith with two clients by processing redemptions in their mutual fund accounts without obtaining instructions, authorization or approval from the clients, contrary to MFDA Rule 2.1.1.

MFDA Rule 2.1.1 states that:

Each Member and each Approved Person of a Member shall:

- (a) deal fairly, honestly and in good faith with its clients;
- (b) observe high standards of ethics and conduct in the transaction of business;

- (c) not engage in any business conduct or practice which is unbecoming or detrimental to the public interest; and
- (d) be of such character and business repute and have such experience and training as is consistent with the standards described in this Rule 2.1.1, or as may be prescribed by the Corporation.

Penalty

The Hearing Panel imposed the following penalties on Coleman:

1. A permanent prohibition of the authority of Coleman to conduct securities related business in any capacity;
2. A fine in the amount of \$10,000; and
3. Costs in the amount of \$2,500.

Summary of Facts

From March 1994 to August 2004, Coleman was registered in Ontario as a mutual fund salesperson with PFSL Investments Canada Ltd. (“PFSL”), a Member of the MFDA. Beginning November 11, 2003, Coleman also served as a branch manager.

Between March 10, 2004 and July 9, 2004, Coleman processed redemptions from the mutual fund accounts of two clients without obtaining instructions, authorization or approval from the clients. He misappropriated the net proceeds from those redemptions totaling approximately \$18,234. Both clients were vulnerable to Coleman’s misconduct. One client was elderly and suffering from medical complications, while the other lacked sophistication with respect to financial investments.

Coleman carried out the unauthorized redemptions by submitting a photocopy of a previously completed redemption request form that he had altered. Coleman caused the net proceeds of the redemptions to be transferred electronically to his personal bank account by attaching to the redemption request forms a photocopy of a cheque for his personal bank account which he had altered by “cutting and pasting” the client’s name on to the cheque. In order to conceal his conduct, Coleman changed the clients’ addresses in PFSL’s records to fictitious addresses so they would not receive statements disclosing the activity in their account.

From time to time, Coleman deposited funds to one of the client’s bank accounts. Coleman led this client to believe that the deposits were the proceeds of redemptions that the client had authorized Coleman to make on her behalf. The client was unaware that Coleman had made other unauthorized redemptions from her mutual fund account, all or part of which he had misappropriated.

In August 2004, Coleman's conduct came to the attention of PFSL. PFSL conducted an investigation and terminated Coleman for cause. PFSL provided full compensation to the clients.

Coleman cooperated with the investigations that were conducted by both PFSL and the MFDA. He also partially reimbursed PFSL for the payments it made to the clients as compensation for the amounts misappropriated from them. As of the date of the hearing, Coleman had paid \$6,000 to PFSL and was promising to repay the \$12,245 that remained outstanding.

In determining the appropriate penalty to impose on Coleman, the Hearing Panel noted that under normal circumstances it would be appropriate to impose a higher fine in a case involving misappropriation by a branch manager. However, in this particular case, the Hearing Panel reduced the fine on the basis Coleman's agreement to complete his restitution payments to PFSL, his undertaking to pay the fine, his cooperation with both investigations, his admission of misconduct at the outset of the investigations, his expression of remorse and other mitigating factors.

For more information, see the Decision and Reasons posted on the MFDA's website under "Enforcement".