

CARL J. KUNASEK  
CHAIRMAN

JIM IRVIN  
COMMISSIONER

WILLIAM A. MUNDELL  
COMMISSIONER

NEW OPEN MEETING ITEM



BRIAN C. McNEIL

ORIGINAL



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ARIZONA CORPORATION COMMISS

MEMORANDUM

AZ CORP COMMISSION  
DOCUMENT CONTROL

TO: Chairman Carl J. Kunasek  
Commissioner Jim Irvin  
Commissioner William A. Mundell

Arizona Corporation Commission  
DOCKETED

FROM: Mark Sendrow  
Director of Securities

NOV 08 1999

DATE: November 8, 1999

DOCKETED BY [Signature]

RE: In the Matter of Norman L. Paulsrud S-03322A-99-0000

CC: Brian C. McNeil, Executive Secretary

Attached is an Order to Cease and Desist and Consent to Same ("Order") executed by Respondent Norman L. Paulsrud ("Paulsrud"). The Order finds that Paulsrud acted pursuant to A.A.C. R14-4-130(A)(4) by recommending an unsuitable investment to a client. The Order imposes a \$5,000 penalty and requires that Paulsrud henceforth comply with the Securities Act of Arizona.

In November 1998, the Division received a complaint against Paulsrud. The complaint alleged that Paulsrud sold an investor an unsuitable investment in the form of a John Hancock High-Yield Bond Fund ("HYB Fund"). The investor was an 80-year-old widow with an estimated annual income of only \$10,000. Her only investment experience was in certificates of deposit. Her investment objective was "current income".

Paulsrud transported the investor to her bank where she liquidated her certificate of deposit. She then invested the money from her certificate of deposit into the HYB Fund.

The HYB Fund is one of six different income funds offered by John Hancock. The HYB Fund has the highest risk of all six funds. The potential for return with the HYB Fund is the greatest of all the income funds. The HYB Fund invests predominantly in lower rated and higher-yielding corporate bonds. These bonds are below investment grade and are often referred to as "junk bonds".

Shortly after the Division became involved, John Hancock rescinded the transaction and allowed the investor to retain all dividends paid while she held the investment. John Hancock also reimbursed the investor for the early withdrawal penalty she paid when she liquidated her certificate of deposit prior to the maturity date.

Paulsrud's career has primarily involved the sale of insurance products. In October 1974, he began his association with John Hancock Mutual Life Insurance Company as an insurance marketing representative. He sold mutual funds through John Hancock from 1995 until his discharge from John Hancock in December 1998.

The NASD approved Paulsrud's registration application on September 10, 1999. He has filed an application to register in Arizona. The registration application is currently pending. Paulsrud has not conducted securities business since his termination with John Hancock in December 1998. If the Commission approves this Order to Cease and Desist and Consent to Same, the Division will approve Paulsrud's application for registration as a salesman.

The Division believes the Order adequately addresses Paulsrud's conduct and serves the public interest by imposing a penalty and Order to Cease and Desist against Paulsrud. The Division respectfully recommends approval of this proposed Order.

Originator: Anthony Bingham

A.G. Assigned: Moira McCarthy

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1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 CARL J. KUNASEK  
CHAIRMAN  
3 JIM IRVIN  
COMMISSIONER  
4 WILLIAM A. MUNDELL  
COMMISSIONER

5 In the matter of )  
6 ) DOCKET NO. S-03322A-99-0000  
7 Norman L. Paulsrud )  
13326 North Manzanita Lane ) DECISION NO. \_\_\_\_\_  
8 Fountain Hills, Arizona 85268 )  
(CRD No. 864918) ) **ORDER TO CEASE AND DESIST AND**  
Respondent. ) **CONSENT TO SAME**  
9 \_\_\_\_\_ )

10 I.

11 Norman L. Paulsrud ("Paulsrud") elects to permanently waive his right to a hearing and appeal  
12 under Articles 11 and 12 of the Securities Act of Arizona (the "Act") with respect to this Order to  
13 Cease and Desist ("Order"); admits the jurisdiction of the Arizona Corporation Commission  
14 ("Commission"); neither admits nor denies the Findings of Fact and Conclusions of Law contained in  
15 this Order; and consents to the entry of this Order by the Commission.

16 II.

17 **FINDINGS OF FACT**

18 1. From October 1974 through December 1998, Paulsrud was associated with John  
19 Hancock Mutual Life Insurance Company ("JHMLIC") as an insurance marketing representative.

20 2. From July 1995 through December 1998, while associated with JHMLIC, Paulsrud,  
21 CRD No. 864918, was also a securities sales representative registered in Arizona in association with  
22 John Hancock Distributors, Inc./Signator Investors Inc. ("JHDI/SII"), CRD No. 468. (JHMLIC and  
23 JHDI/SII are hereinafter collectively referred to as "John Hancock").

24 3. According to John Hancock's Form U-5 filing, Paulsrud was terminated in December of  
25 1998 for unauthorized placement of business with another company in violation of John Hancock's  
26 policy.

1           4.     On November 5, 1998, the Arizona Corporation Commission, Securities Division  
2 (“Division”), received a complaint alleging that in August 1997, Paulsrud sold a John Hancock High  
3 Yield Bond Fund (“HYB Fund”) to an investor for which said investment was not suitable in light of  
4 the investor’s age, income, limited financial resources and investment experience.

5           5.     This investor was an 80 year old retired widow. According to her Client Profile, she  
6 had an estimated annual income of \$10,000. Her investment experience was limited to certificates of  
7 deposit. Her investment objective was current income.

8           6.     Paulsrud transported the investor to her bank where she liquidated her certificate of  
9 deposit and received a cashier’s check for \$44,612.05. She then invested the money into the HYB  
10 Fund. In liquidating her certificate of deposit, she incurred an early withdrawal penalty.

11           7.     The HYB Fund is one of six different income funds offered by John Hancock. The  
12 HYB Fund is the fund with the highest risk and greatest reward potential. The HYB Fund typically  
13 invests at least 65% of its assets in lower rated, higher-yielding corporate bonds. These types of bonds  
14 are below investment grade, i.e., “junk bonds”.

15           8.     In connection with the above complaint, John Hancock rescinded the purchase, allowed  
16 the investor to retain the distributions she received while she held the investment and reimbursed her  
17 the early withdrawal penalty she paid when she liquidated her certificate of deposit to purchase the  
18 HYB Fund.

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III.

CONCLUSIONS OF LAW

1. The Commission has jurisdiction over this matter pursuant to the Act, A.R.S. §44-1801 et seq., and Article XV of the Arizona Constitution.

2. Paulsrud's sale of the HYB Fund to this investor constitutes conduct pursuant to A.A.C. R14-4-130(A)(4).

IV.

ORDER

THEREFORE, on the basis of the Findings and Conclusions above, and in consideration of Paulsrud's consent, the Commission issues the following Order.

1. IT IS ORDERED, pursuant to A.R.S. §44-2032, that Paulsrud CEASE and DESIST from violations of the Act.

2. IT IS ORDERED, pursuant to A.R.S. §44-2036, that Paulsrud pay an administrative assessment in the amount of Five Thousand Dollars and No Cents (\$5,000.00) by cashiers or certified funds. Paulsrud shall pay \$1,000.00 upon entry of this Order with the balance of \$4,000.00 payable at the rate of \$1,000.00 per month for four (4) months beginning 30 days from the date of entry of this Order.

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1 3. IT IS ORDERED that Paulsrud's failure to comply with any term of this Order, shall  
2 constitute grounds for the revocation or suspension of Paulsrud's registrations approved by the  
3 Division subject to Paulsrud's right to a hearing pursuant to the Act.

4 4. IT IS FURTHER ORDERED that the Order shall become effective immediately upon  
5 the date set forth below.

6  
7  
8 BY ORDER OF THE ARIZONA CORPORATION COMMISSION

9  
10 CHAIRMAN

COMMISSIONER

COMMISSIONER

11  
12 IN WITNESS WHEREOF, I, Brian C. McNeil, Executive  
13 Secretary of the Arizona Corporation Commission, have  
14 hereunto set my hand and caused the official seal of the  
15 Commission to be affixed at the Capitol, in the City of  
16 Phoenix, this \_\_\_\_ day of \_\_\_\_\_, 1999.

17  
18 \_\_\_\_\_  
19 BRIAN C. McNEIL  
20 Executive Secretary

21  
22 \_\_\_\_\_  
23 DISSENT

24 (AB)

25 This document is available in alternative formats by contacting Cynthia Mercurio-Sandoval, ADA  
26 Coordinator, voice phone number 602/542-0838, E-mail csandoval@cc.state.az.us.

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CONSENT BY NORMAN L. PAULSRUD

TO THE ENTRY BY THE CORPORATION COMMISSION

OF AN ORDER TO CEASE AND DESIST AND WAIVER OF HEARING

1  
2  
3  
4 1. Respondent, Norman L. Paulsrud, an individual, admits the jurisdiction of the Arizona  
5 Corporation Commission ("Commission") over the subject matter of this proceeding, and solely, with  
6 respect to this matter, knowingly and voluntarily waives any and all rights to a hearing before the  
7 Commission and all other procedures otherwise available under Article 11 of the Securities Act of  
8 Arizona (the "Act"), A.R.S. Title 44 and The Arizona Administrative Code. Paulsrud acknowledges  
9 that the accompanying Order To Cease and Desist and Consent to Same ("Order") constitutes a valid  
10 final order duly rendered by the Commission.

11 2. Paulsrud knowingly and voluntarily waives any right he may have under Article 12 of  
12 the Act to judicial review by any court by way of suit, appeal or extraordinary relief resulting from the  
13 entry of this Order.

14 3. Paulsrud acknowledges and agrees that this Order is entered into freely and voluntarily  
15 and that no promise was made or coercion used to induce Paulsrud to enter into it.

16 4. Paulsrud consents to the entry of this Order and agrees to be fully bound by its terms  
17 and conditions. Paulsrud further acknowledges that should he fail to comply with any and all  
18 provisions of this Order, the Commission may impose additional sanctions and costs and seek other  
19 appropriate relief subject to Paulsrud's right to a hearing pursuant to the Act.

20 5. Paulsrud acknowledges that this Order resolves only alleged administrative violations of  
21 the Act and that nothing contained in the Order purports to resolve any other issues which may exist  
22 between Paulsrud and the State. Nothing in the Order shall be construed to restrict the State's right in  
23 a future proceeding to bring an action against Paulsrud from or related to facts not set forth in the  
24 Order.

25 ...

26 ...

1 6. Paulsrud acknowledges that he has been informed and understands that the Commission  
2 or its designee, at the Commission's sole and exclusive discretion, may refer or grant access to this  
3 matter, or any information or evidence gathered in connection with this matter, to any person or entity  
4 having appropriate administrative, civil or criminal jurisdiction. Paulsrud acknowledges that no  
5 representations regarding the above have been made so as to induce him to enter into this Order,  
6 including the fact that no promise or representation has been made by the Commission or its designee  
7 or staff with regard to any potential criminal liability or immunity from any potential criminal liability.

8 7. Paulsrud neither admits nor denies the Findings of Fact and Conclusions of Law  
9 contained in the Order.

10 8. This Order represents the complete and final resolution with respect to all  
11 administrative or civil claims and causes of action by the Commission against Paulsrud for violations  
12 of the Act arising out of the facts set forth in this Order, and is in lieu of any further administrative or  
13 civil proceedings based on facts known to the Commission at this time.

14  
15 Norman L. Paulsrud  
16 NORMAN L. PAULSRUD

17 SUBSCRIBED TO AND SWORN BEFORE me this 3<sup>rd</sup> day of November, 1999, by  
18 NORMAN L. PAULSRUD.

19  
20 Michael A. Smedinghoff  
21 Notary Public

22 My Commission Expires: 6/1/2000

