

**STATE OF MICHIGAN
DEPARTMENT OF LICENSING AND REGULATORY AFFAIRS
CORPORATIONS, SECURITIES & COMMERCIAL LICENSING BUREAU**

In the matter of:

Agency Nos. 332099, 332685, 332805

ERNEST J. ROMER III
CRD# 2311741

Respondent.

_____ /

Issued and entered
This 8th day of August, 2017

NOTICE AND ORDER TO CEASE AND DESIST

Julia Dale, the Director of the Corporations, Securities & Commercial Licensing Bureau (the "Administrator"), pursuant to her statutory authority and responsibility to administer and enforce the Michigan Uniform Securities Act (2002), 2008 PA 551, as amended, MCL 451.2101 *et seq* ("Securities Act"), hereby orders Ernest J. Romer III ("Respondent") to cease and desist from engaging in an act, practice, or course of business that operates or would operate as a fraud or deceit upon another person in connection with the offer or sale of securities, contrary to the Securities Act. Respondent is notified of the opportunity to request a hearing in this matter.

I. BACKGROUND

A. The Respondent

1. Ernest J. Romer III (CRD#2311741) ("Respondent") is an individual that resides in the State of Michigan. Respondent was previously registered as an agent through a Michigan-registered broker-dealer, Corecap Investments, Inc. (CRD#37068) ("Corecap"). Respondent was terminated by Corecap for failing to disclose outside business activities, and for engaging in unauthorized transactions with customers. (Exhibit 1 – Corecap Form U5).

B. Findings of Fact

1. The Bureau conducted an investigation of Respondent's Activities.

2. The investigation developed evidence that Respondent convinced several Corecap customers to liquidate securities held in their Corecap accounts to make alternative investments with Respondent. However, Rather than invest the funds for the customers' benefit, Respondent deposited the cash generated by the securities liquidations into an account that he controlled, and used the money for non-investment purposes that only benefitted him.
3. Respondent took \$190,000.00 from Customer MR¹ between July of 2014 and April of 2016 for what Customer MR believed to be investment purposes. This included a \$110,000.00 withdrawal from Customer MR's Corecap account after Respondent liquidated \$104,268.96 of stock in the account. Rather than deposit the funds into a brokerage account to buy investments for Customer MR's benefit, Respondent deposited the funds into an account which he controlled and utilized the funds for his own benefit.
4. Respondent took \$115,000.00 from Customer GP² on or around January 5, 2015 after Respondent convinced Customer GP to liquidate \$157,052.78 of stock from his Corecap brokerage account. Customer GP believed that Respondent was going to invest the funds for Customer GP's benefit. Rather than invest the money for Customer GP's benefit, Respondent deposited the funds into an account which he controlled and utilized the funds for his own benefit.
5. Respondent took \$46,000.00 from Customer RK³ on or around April 30, 2015 after Respondent convinced Customer RK to liquidate stock in an IRA to fund the purchase of an annuity. Rather than purchase the annuity as promised, Respondent deposited the funds into an account which he controlled and utilized the funds for his own benefit.

II. RELEVANT STATUTORY PROVISIONS

1. Section 102c(c) of the Securities Act defines "Security", in part, as:

a note; stock; treasury stock; security future; bond; debenture; evidence of indebtedness; certificate of interest or participation in a profit-sharing agreement; collateral trust certificate; preorganization certificate or subscription; transferable share; investment contract; voting trust certificate; certificate of deposit for a security; fractional undivided interest in oil, gas, or other mineral rights; put, call, straddle, option, or

¹ Customer MR was born in 1931.

² Customer GP was born in 1946.

³ Customer RK was born in 1949.

privilege on a security, certificate of deposit, or group or index of securities, including an interest in or based on the value of that put, call, straddle, option, or privilege on that security, certificate of deposit, or group or index of securities, put, call, straddle, option, or privilege entered into on a national securities exchange relating to foreign currency, an investment in a viatical or life settlement agreement; or, in general, an interest or instrument commonly known as a "security"; or a certificate of interest or participation in, temporary or interim certificate for, receipt for, guarantee of, or warrant or right to subscribe to or purchase, any of the foregoing...

2. Section 501 of the Securities Act, MCL 451.2501, states:

It is unlawful for a person, in connection with the offer, sale, or purchase of a security or the organization or operation of a Michigan investment market under article 4A, to directly or indirectly do any of the following:...

- (a) Employ a device, scheme, or artifice to defraud.
- (b) Make an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading.
- (c) Engage in an act, practice, or course of business that operates or would operate as a fraud or deceit on another person.

III. CONCLUSIONS OF LAW

1. Respondent Ernest J. Romer III engaged in an act, practice, or course of business that operated as a fraud or deceit on another person in connection with the offer or sale of securities when he convinced Customer MR to liquidate securities, then accepted the proceeds of the liquidation to invest on Customer MR's behalf, but instead deposited the funds into an account that he controlled, and used the funds for his own benefit, rather than the benefit of Customer MR. Respondent's act, practice, or course of business was in violation of section 501(c) of the Securities Act, MCL 451.2501(c).
2. Respondent Ernest J. Romer III engaged in an act, practice, or course of business that operated as a fraud or deceit on another person in connection with the offer or sale of securities when he convinced Customer GP to liquidate securities, then accepted the proceeds of the liquidation to invest on Customer GP's behalf, but instead deposited the funds into an account that he controlled, and used the funds for his own benefit, rather than the

benefit of Customer GP. Respondent's act, practice, or course of business was in violation of section 501(c) of the Securities Act, MCL 451.2501(c).

3. Respondent Ernest J. Romer III engaged in an act, practice, or course of business that operated as a fraud or deceit on another person in connection with the offer or sale of securities when he convinced Customer RK to liquidate securities, then accepted the proceeds of the liquidation to invest on Customer RK's behalf, but instead deposited the funds into an account that he controlled, and used the funds for his own benefit, rather than the benefit of Customer RK. Respondent's act, practice, or course of business was in violation of section 501(c) of the Securities Act, MCL 451.2501(c).

IV. ORDER

IT IS THEREFORE ORDERED, pursuant to section 604 of the Securities Act, MCL 451.2604, that:

- A. Respondent shall immediately CEASE AND DESIST from engaging in an act, practice, or course of business that operates or would operate as a fraud or deceit upon another person in connection with the offer or sale of securities, contrary to the Securities Act.
- B. Pursuant to section 604(2) of the Securities Act, this Notice and Order to Cease and Desist is IMMEDIATELY EFFECTIVE.
- C. In her Final Order, the Administrator, under section 604(4) of the Securities Act, MCL 451.2604(4), intends to impose a civil fine of \$1,000,000.00 against Respondent.
- D. Pursuant to section 508 of the Securities Act, MCL 451.2508, a person that willfully violates the Securities Act, or an order issued under the Securities Act, is guilty of a felony punishable by imprisonment for not more than 10 years or a fine of not more than \$500,000.00 for each violation, or both. An individual convicted of violating a rule or order under this act may be fined, but shall not be imprisoned, if the individual did not have knowledge of the rule or order.

V. NOTICE OF OPPORTUNITY FOR HEARING

Section 604 of the Securities Act, MCL 451.2604, provides that Respondent has 30 days beginning with the first day after the date of service of this Notice and Order to Cease and Desist to submit a written request to the Administrator asking that this matter be scheduled for a hearing. If the Administrator receives a written request in a timely

Notice & Order to Cease & Desist
Ernest J. Romer III (CNs 332099, 332685, 332805)
CRD#2311741

manner, the Administrator shall schedule a hearing within 15 days after receipt of the request. The written request for a hearing must be addressed to:

Corporations, Securities & Commercial Licensing Bureau
Regulatory Compliance Division
P.O. Box 30018
Lansing, MI 48909

VI. ORDER FINAL ABSENT HEARING REQUEST

- A. Under section 604 of the Securities Act, MCL 451.2604, the Respondent's failure to submit a written request for a hearing to the Administrator within 30 days after the service date of this **NOTICE AND ORDER TO CEASE AND DESIST** shall result in this order becoming a **FINAL ORDER** by operation of law. The **FINAL ORDER** includes the imposition of the fines cited described in section IV.C., and the fine amounts set forth below will become due and payable to the Administrator within sixty (60) days after the date this order becomes final:

\$1,000,000.00 – Ernest J. Romer III, under section 604 of
the Securities Act, MCL 451.2604.

- B. CIVIL FINE payments should be payable to the STATE OF MICHIGAN and contain identifying information (e.g., names and complaint numbers) and mailed to the following address:

Corporations, Securities & Commercial Licensing Bureau
Final Order Monitoring
P.O. Box 30018
Lansing, MI 48909

- C. Failure to comply with the terms of this Order within the time frames specified may result in additional administrative penalties, including the summary suspension or continued suspension of all registrations held by Respondent under the Securities Act, the denial of any registration renewal, and/or the denial of any future applications for registration, until full compliance is made. Respondent may voluntarily surrender or withdraw a registration under the Securities Act; however, the surrender or withdrawal will not negate the summary suspension or continued suspension of the relevant registrations or any additional administrative proceedings if a violation of this Order or the Securities Act occurred.

D. Failure to pay the civil fines within six (6) months after this Order becomes final may result in the referral of the civil fines to the Michigan Department of Treasury for collection action against Respondents.

CORPORATIONS, SECURITIES & COMMERCIAL LICENSING BUREAU



Julia Dale, Director, Corporations, Securities
& Commercial Licensing Bureau

8/8/17

Date

**STATE OF MICHIGAN
DEPARTMENT OF LICENSING AND REGULATORY AFFAIRS
CORPORATIONS, SECURITIES & COMMERCIAL LICENSING BUREAU**

In the matter of:

Agency Nos. 332099, 332685, 332805

ERNEST J. ROMER III
CRD# 2311741

Respondent.

_____ /

Issued and entered
This 8th day of August, 2017

**NOTICE OF INTENT TO REVOKE
SECURITIES AGENT REGISTRATION**

I. RELEVANT FACTS AND APPLICABLE LAW.

Relevant information and statutory provisions, under the Michigan Uniform Securities Act (2002), 2008 PA 551, as amended, MCL 451.2101 *et seq* (the "Securities Act"):

1. Ernest J. Romer III ("Respondent") has been registered as a securities agent through multiple broker-dealers since in or around 1993. (Exhibit 1 – Registrations Summary). Respondent's most recent registration was through Corecap Investments, Inc. (CRD# 37068) ("Corecap"), a Michigan-registered broker-dealer firm. Respondent's most recent registration was terminated on or around January 23, 2017 due to his failure to disclose and provide Corecap with notice of an outside business activity, and for engaging in prohibited client transactions by allowing wire transfers from clients into outside accounts of an entity controlled by Respondent. (Exhibit 1).
2. The Corporations, Securities & Commercial Licensing Bureau ("the Bureau") within the Department of Licensing and Regulatory Affairs began an investigation of Respondent's activities in the securities industry.
3. The Bureau's investigation developed evidence that Respondent convinced four of his Corecap customers, GM, MR, GP, and RK, to give him money to invest on their behalf through their brokerage accounts; however, rather than invest the funds as represented, Respondent deposited the funds in a checking account that he controlled and used the funds for his own benefit.
4. Each of GM, MR, GP, and RK believed that Respondent was soliciting and accepting funds to invest in securities through brokerage accounts on their behalf. Respondent solicited and accepted funds as follows:

- A. GM gave a check to Respondent for \$150,000.00 on or around December 15, 2015 which Respondent deposited into an account that only he could access;
 - B. GM gave a check to Respondent for \$100,000.00 on or around January 12, 2016 which Respondent deposited into an account that only he could access;
 - C. MR gave a cashier's check to Respondent for \$40,000.00 on or around July 11, 2014 which Respondent deposited into an account that only he could access;
 - D. MR gave a check to Respondent for \$32,000.00 on or around November 10, 2015 that was deposited into an account that only Respondent could access on or around November 12, 2015;
 - E. MR gave a cashier's check to Respondent for \$40,000.00 on or around December 2, 2015 that was deposited into an account that only Respondent could access;
 - F. A wire transfer of \$110,000.00 from MR's Corecap account was made to an account Respondent controlled on or around April 11, 2016¹;
 - G. GP gave a check to Respondent for \$115,000.00 on or around December 30, 2014 that was deposited into an account that only Respondent could access on or around January 5, 2015²; and
 - H. RK gave a cashier's check to Respondent for \$46,000.00 on or around April 30, 2015 that was deposited into an account that only Respondent could access.
5. Respondent has not accounted for the funds he solicited and accepted from customers GM, MR, GP, or RK.
 6. Customer GM was born in 1935; Customer MR was born in 1931; Customer GP was born in 1946; and Customer RK was born in 1949.
 7. On or around April 13, 2017 and May 8, 2017, the Financial Industry Regulatory Authority ("FINRA") notified Respondent that he was suspended from association with any FINRA member as a result of his conduct. FINRA converted the suspension to an indefinite bar, barring Respondent from association with any FINRA member indefinitely on or around July 17, 2017. (Exhibit 2 – FINRA Form U6).
 8. The Director ("Administrator") of the Bureau has reviewed materials relating to Respondent's actions as a registrant under the Securities Act. The Administrator has

¹ MR does not recall authorizing the transfer and believes Respondent had her sign a blank form then filled it in to effectuate the transaction.

² GP owed approximately \$35,000.00 in taxes as a result of this transaction. When GP asked Respondent about this, Respondent wired that amount to GP to satisfy the tax liability.

determined that it is authorized, appropriate, and in the public interest to revoke Respondent's securities agent registration based upon Respondent's conduct discussed above and hereafter.

9. Section 409 of the Securities Act, MCL 451.2409, states in relevant part:

Withdrawal of registration by a broker-dealer, agent, investment adviser, or investment adviser representative is effective 60 days after an application to withdraw is filed or within a shorter period as provided by rule or order under this act, unless a revocation or suspension proceeding is pending when the application is filed. If a proceeding is pending, withdrawal is effective when and on conditions required by rule or order under this act. *The administrator may institute a revocation or suspension proceeding under section 412 within 1 year after the withdrawal became effective automatically and issue a revocation or suspension order as of the last date on which registration was effective if a proceeding is not pending.* (Emphasis added).

10. Section 412(2) of the Securities Act, MCL 451.2412(2), states in relevant part:

If the administrator finds that the order is in the public interest and subsection (4) authorizes the action, an order under this act may revoke, suspend, condition, or limit the registration of a registrant and if the registrant is a broker-dealer or investment adviser, of a partner, officer, director, or a person having a similar status or performing similar functions, or a person directly or indirectly in control of the broker-dealer or investment adviser...

11. Section 412(3) of the Securities Act, MCL 451.2412(3), states:

If the administrator finds that the order is in the public interest and subsection (4)(a) to (f), (i) to (j), or (l) to (n) authorizes the action, an order under this act may censure, impose a bar, or impose a civil fine in an amount not to exceed a maximum of \$10,000.00 for a single violation or \$500,000.00 for more than 1 violation on a registrant...

12. Section 412(4) of the Securities Act, MCL 451.2412(4) states in relevant part:

(4) A person may be disciplined under subsections (1) to (3) if any of the following apply to the person:

(e) The person is the subject of an order, issued after notice and opportunity for hearing by any of the following:

(iii) the securities and exchange commission or a self-regulatory organization suspending or expelling the registrant from membership in a self-regulatory organization.

(m) The person has engaged in dishonest or unethical practices in the securities, commodities, investment, franchise, banking, finance, or insurance business within the previous 10 years...

13. Section 412(7) of the Securities Act, MCL 451.2412(7), states:

(7) Except under subsection (6), an order shall not be issued under this section unless all of the following have occurred:

- (a) Appropriate notice has been given to the applicant or registrant.
- (b) Opportunity for hearing has been given to the applicant or registrant.
- (c) Findings of fact and conclusions of law have been made on the record pursuant to the administrative procedures act of 1969, 1969 PA 306, MCL 24.201 to 24.328.

14. The Administrator may revoke Respondent's securities agent registration pursuant to section 412(2) of the Securities Act, MCL 451.2412(2), because it is in the public interest, and because:

- A. Respondent is subject of an order issued by a self-regulatory organization, FINRA, suspending and subsequently barring him from association with any broker-dealer or other FINRA member, giving the Administrator cause to issue an order under sections 409, 412(2), 412(3), and 412(4)(e)(iii) of the Securities Act, MCL 451.2409, MCL 451.2412(2), MCL 451.2412(3), and MCL 451.2412(4)(e)(iii).
- B. Respondent engaged in dishonest or unethical behavior in the securities industry by convincing multiple customers to turn over their money for him to invest for the customers' benefit, then using that money for his own purposes, giving the Administrator cause to issue an order under sections 409, 412(2), 412(3), and 412(4)(m) of the Securities Act, MCL 451.2409, MCL 451.2412(2), MCL 451.2412(3), and MCL 451.2412(4)(m).

II. ORDER.

The Administrator finds that this ORDER is authorized, appropriate, and in the public interest based on the above-cited facts and law.

IT IS ORDERED as follows:

1. The Administrator intends TO REVOKE THE SECURITIES AGENT REGISTRATION OF ERNEST J. ROMER III under section 412(2) of the Securities Act, MCL 451.2412(2), because he is subject to an order by a self-regulatory organization barring him from registration with a broker-dealer, and because he has engaged in dishonest or unethical business practices in the securities industry within the previous 10 years, which support the revocation of his securities agent registration under the above-cited provisions of the Michigan Uniform Securities Act (2002), 2008 PA 551, MCL 451.2101 *et seq.*

2. In her final order, the Administrator intends to impose a civil fine of \$500,000.00 against Respondent under section 412(3) of the Securities Act, MCL 451.2412(3).

3. In accordance with sections 412(2) and 412(7) of the Securities Act, MCL 451.2412(2) and MCL 451.2412(7): This is NOTICE that the Administrator intends to commence administrative proceedings to revoke Respondent's securities agent registration, and that Respondent has thirty (30) days after the date that this Order is served on Respondent to respond in writing to the enclosed Notice of Opportunity to Show Compliance. If the Administrator timely receives a written request, depending upon the election, the Administrator shall either promptly schedule a compliance conference, or schedule a hearing within fifteen (15) days after receipt of the written request. If you fail to respond to this Notice and Order within the time frame specified, the Administrator shall schedule a hearing. If a hearing is requested or ordered, the Administrator, after notice of and an opportunity for hearing to Respondent, may modify or vacate this Order or extend the Order until final determination.

If Respondent requests a hearing, the request must be in writing and filed with the Department of Licensing and Regulatory Affairs, Corporations, Securities & Commercial Licensing Bureau, Regulatory Compliance Division, P.O. Box 30018, Lansing, MI 48909.

DEPARTMENT OF LICENSING AND REGULATORY AFFAIRS
CORPORATIONS, SECURITIES & COMMERCIAL LICENSING BUREAU

By:



Julia Dale, Administrator and Director
Corporations, Securities & Commercial Licensing Bureau



RICK SNYDER
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF LICENSING AND REGULATORY AFFAIRS
LANSING

SHELLY EDGERTON
DIRECTOR

**RESPONDENT'S NOTICE OF OPPORTUNITY TO SHOW COMPLIANCE
OR REQUEST A FORMAL HEARING DATE**

Dated: August 9, 2017

ERNEST J. ROMER III
CRD # 2311741

Agency Nos. 332099, 332685, 332805

Respondent.

_____ /

You have been served with a Notice of Intent to Revoke Securities Agent Registration ("Order"), alleging that you violated the Michigan Uniform Securities Act (Act), 2008 PA 551, MCL 451.2101 *et seq.* The procedures in this matter shall be governed by the Act, procedural rules promulgated under the predecessor Uniform Securities Act, 1964 PA 265, MCL 451.501 *et seq.*, 1983 AACRS, R 451.2101 through 451.3503, the Michigan Administrative Procedures Act, 1969 PA 306, MCL 24.201 *et seq.* and any other applicable laws.

Should you admit to the alleged violations, or are found responsible for violations after an administrative hearing, you are subject to penalties provided for in the Act. The Order and associated disciplinary records are subject to disclosure and publication to the public in accord with Section 11 of the Michigan Freedom of Information Act, 1976 PA 442, MCL 15.241. Publication may include posting of the disciplinary record on the Department's website or in other reporting formats.

Pursuant to Section 92(1) of the Administrative Procedures Act, MCL 24.292(1), and the administrative rules promulgated under the predecessor Uniform Securities Act, 1964 PA 265, 1983 AACRS, R. 451.2401 through 451.2408, you may choose one of the following opportunities regarding this Order:

- (a) Meet with the Department to negotiate a resolution of the matter on **September 11, 2017 at 2:00pm. Please notify this office within 15 days if you choose this option.** If you select this option, the Compliance Conference will take place at **2501 Woodlake Circle, Okemos, Michigan 48864** on the first floor. Please check in with the front desk of the Corporations, Securities & Commercial Licensing Bureau.
- (b) Submit a written showing of compliance by **September 11, 2017.**
- (c) Request a contested case hearing within thirty (30) calendar days of the mailing date of this Order and Notice.

LARA is an equal opportunity employer/program.
Auxiliary aids, services and other reasonable accommodations are available upon request to individuals with disabilities.

If you choose option (a), plan on attending the compliance conference, as scheduled, unless an earlier date is agreed upon by you and the Administrator. Upon written request, the Administrator may extend the time in which you may show compliance to avoid undue hardships. A showing of compliance may be made in writing or by a personal appearance at the scheduled meeting. You have the right, at your own expense, to have an attorney represent you in this conference and/or in preparing a written response. The primary purpose of the conference is to afford you with an opportunity to discuss the Order in an attempt to resolve the matter. Any statements made, either in the written response or at the meeting, may be used as evidence against you at any later proceedings.

If a resolution short of the complete withdrawal of the Order is reached at the conference, a Stipulation or Consent Order may be prepared for your signature. The signed Stipulation or Consent Order will be submitted to the Administrator for acceptance or rejection. You will be notified as to whether the Administrator accepts or rejects the proposed resolution. If a resolution is not reached at the conference, the matter will proceed to a contested case hearing.

If you choose option (c), or you fail to respond to the Order within the time frame specified, the matter will be scheduled for a contested case hearing before an administrative law judge. You have the right, at your own expense, to have an attorney represent you at the hearing. Following the hearing, the administrative law judge will issue a Proposal for Decision. The Proposal for Decision will be forwarded to the Administrator for his review and the issuance of a Final Order in this matter.

Please do not telephone our office to discuss the specifics of the Order. We cannot provide you with legal advice. You may contact (517) 241-9590 with procedural questions about the Order.

For your convenience, enclosed is a Compliance Conference Election Form to be completed and returned to this office indicating your selection. All correspondence should be addressed to Corporations, Securities & Commercial Licensing Bureau, Regulatory Compliance Division – Attn: Support & Scheduling Unit, P.O. Box 30018, Lansing, Michigan 48909. **If you fail to respond to this Notice and Order, a contested case hearing will be requested and scheduled.**

COMPLIANCE CONFERENCE ELECTION FORM
Agency Nos. 332099, 332685, 332805

I wish to:

- _____ Meet with the Department to negotiate a resolution of the matter on **September 11, 2017 at 2:00pm** at 2501 Woodlake Circle, Okemos, Michigan 48864.
- _____ Submit a written showing of compliance by **September 11, 2017**.
- _____ Proceed directly to a contested case hearing.

Dates **unavailable** to attend conference/hearing: _____

If you fail to respond, attend the scheduled compliance conference or to request a contested case hearing within 30 calendar days, a contested case hearing will be requested and scheduled.

Printed Name

Phone No.

Email Address

Signature

Date

This form must be signed by the respondent or his/her attorney if an individual or sole proprietorship, or by an individual legally authorized to do so on behalf of the respondent if the respondent is a partnership, limited liability company (L.L.C.), or corporation.

Please do not telephone our office to discuss the specifics of the Order. We cannot provide you with legal advice. You may contact (517) 241-9590 with procedural questions about the Order.

Return this form and/or any written response to:

Corporations, Securities & Commercial Licensing Bureau
Regulatory Compliance Division
P.O. Box 30018
Lansing, Michigan 48909
Fax: (517) 241-0290