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Settlement Agreement

**Union Securities Ltd., John P. Thompson,
Rex W. Thompson and Norman F. Thompson**

Securities Act, RSBC 1996, c. 418

- ¶ 1 The Executive Director of the British Columbia Securities Commission and each of Union Securities Ltd. (Union) and John P. Thompson, Rex W. Thompson, and Norman F. Thompson (the Thompsons) agree as follows:

Agreed Statement of Facts

- ¶ 2 The following facts are correct:

Background

1. Union is a British Columbia company, with its head office in Vancouver, British Columbia. Union has been a member of the Vancouver Stock Exchange (VSE), now the TSX Venture Exchange, since 1963, a member of the Toronto Stock Exchange since 1991 and a member of the Investment Dealers Association of Canada (IDA) since June 4, 1997. Union has been continuously registered as a broker or investment dealer under section 34 of the Securities Act, RSBC 1996, c. 418 (the Act) or equivalent predecessor provisions since 1982.
2. John Thompson, a resident of British Columbia, has been a director of Union from March 27, 1990 to the present. He has been the Chief Executive Officer since about July 26, 1996. He has been registered under the Act as a registered representative since 1987 and as a trading director and officer (or in an equivalent capacity) since 1990. He has been the person ultimately responsible for compliance with securities regulatory requirements at Union since at least 1999 and registered as the ultimate designated person (UDP) for Union since 2002.
3. Rex Thompson, a resident of British Columbia, has been a director of Union from March 22, 1990 to the present. He has been the Executive Vice President since about July 26, 1996. He has been registered under the Act as a registered representative since 1990 and as a trading director and officer (or in an equivalent capacity) since 1990. He has been the Alternate Designated Person for Union since 2002.

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4. Norman F. Thompson, a resident of British Columbia, has been a director of Union from October 31, 1989 to the present. He has been the President since about July 26, 1996. He was the Chief Financial Officer from about July 26, 1996 to July 19, 2005. He has been registered under the Act as a registered representative since 1982 and as a trading director and officer (or in an equivalent capacity) since 1989.
5. The IDA registered each of the Thompsons under the Act in its capacity as the designated organization under the Registration Transfer Rules B.C. Reg. 193/97. The registration of each of the Thompsons is subject to annual re-approval and renewal on December 31 of each year.

Misconduct

Registered representatives' failure to act as gatekeepers

6. From 1999 to 2001, four registered representatives at Union (the Registered Representatives) had US dollar accounts for 40 clients, among others, at Union. None of these clients or the individuals who gave trading and other instructions on the accounts were residents of Canada. The accounts traded primarily securities quoted on the Over-The-Counter Bulletin Board quotation system (OTCBB) in the United States.
7. The Registered Representatives failed to learn some of the essential facts relative to these clients, such as their identity, creditworthiness, and reputation, by failing to:
 - (a) obtain sufficient information to complete new client application forms fully and accurately;
 - (b) identify the beneficial owners of, or the persons having a financial interest in the accounts;
 - (c) perform or request Lexis Nexis searches on the clients and their trading authorities as required by Union's policy and procedures manual; or
 - (d) make enquiries concerning the reputation of their clients after they became aware of information, including the Account Characteristics described below, that caused doubt about whether they were of good business or financial reputation,

all contrary to section 48(1) of the Rules, VSE Rules F.1.01 and F.2.08, Canadian Venture Exchange (CDNX) Rules F.1.01, F.1.02 and F.2.03, IDA Regulation 1300 and IDA By-Law 29.1.

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8. The accounts had some or all of the following characteristics (Account Characteristics):
 - (a) they were introduced or opened by non-residents of Canada with no connection to the geographic location of the branch of Union at which the Registered Representatives worked;
 - (b) the Registered Representatives seldom met personally with the clients;
 - (c) the clients frequently paid full commissions for execution-only services;
 - (d) large denomination stock certificates in OTCBB issuers, often restricted or registered in the name of third parties, were frequently delivered into the accounts;
 - (e) the accounts purchased and sold primarily OTCBB securities, often with no apparent economic purpose;
 - (f) security positions were transferred out of the accounts or liquidated, with the transfers and sale proceeds often directed to third parties; and
 - (g) liquidation proceeds were rarely reinvested, except in the same security.
9. The Registered Representatives had a duty, as gatekeepers to the securities market, to refuse to engage in conduct which would tend to bring the integrity of the capital markets into disrepute and to ensure that they did not assist in, or permit, conduct by clients which would have a similar effect. The Account Characteristics ought to have raised significant client integrity concerns for them. Despite this, they failed to make further enquiries about these clients and their trading, and continued to process orders and transactions, in breach of their duties to act as gatekeepers.
10. The Registered Representatives failed to take steps to verify the identity of their clients and persons authorized to trade in their accounts in accordance with industry anti-money laundering standards.

Market manipulations

11. Trevor Koenig was one of the Registered Representatives. He was the registered representative for accounts at Union controlled by Edward Durante (Durante). From September 1999 to June 2000, Koenig traded the securities of three OTCBB issuers from those accounts on instructions from Durante.

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12. In February 2001, Koenig pleaded guilty in the United States to conspiracy to commit securities fraud and wire fraud in connection with the manipulation of the securities he traded from Union accounts on instruction from Durante. The US court sentenced him to 22 months imprisonment, three years probation, and ordered him to pay restitution of US\$885,000. He served approximately 18 months in prison and has not paid the restitution order because of an inability to pay.
13. On November 10, 2004, the Commission found that Durante and certain companies he controlled received profits from the market manipulations that totaled over US\$36 million.
14. In a March 6, 2006 settlement agreement with the Executive Director, Koenig admitted that he knew that the purpose of the trading was to manipulate the share prices of these OTCBB issuers and that he had played a significant role in facilitating the manipulations, contrary to sections 57 and 57.1 of the Act.
15. Koenig and Durante were able to engage in this misconduct because of the failure of Union's business and compliance and supervision procedures. Union was unaware of this misconduct.

Union's business and compliance procedures

16. Union failed to establish and apply written prudent business procedures for dealing with clients in compliance with the Act and the regulations. Among other things, Union failed to:
 - (a) apply its stated policies for dealing with account opening deficiencies;
 - (b) establish and apply procedures for identifying and responding to suspicious trading activities;
 - (c) establish and apply procedures to record that it performed compliance reviews of client trading activity; or
 - (d) establish and apply procedures that took into account the nature, scale, complexity and risks associated with its foreign client base,

all contrary to VSE, CDNX and IDA by-laws, rules, regulatory instruments and policies relating to dealing with clients, and therefore also section 44 of the Rules.

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Failure to supervise

17. Union failed to establish appropriate procedures for supervising account activity to ensure a high standard of ethics and good business conduct, as required by VSE Rules F.1.0, F.2.01 and Policy Statement CR06, CDN Rules F.1.01, F.2.01 and Policy Statement CR06, and IDA Regulation 1300, IDA Policy No. 2 and IDA By-Laws 17.2 and 29.1.
18. Union knew or ought to have known of the failure of its compliance personnel to ensure compliance with the Act and the regulations by Union, its partners, directors, officers and other employees as required by section 65 of the Rules, and to approve the opening of new client accounts and supervise transactions made on behalf of clients, as required by section 47 of the Rules. As a result, Union contravened sections 47 and 65 of the Rules.

Thompsons' Responsibility as Directors

19. By failing to put in place adequate systems for the management of Union, including the flow of necessary information to them, the Thompsons, in their capacities as directors or senior officers, authorized, permitted, or acquiesced in Union's contraventions of the Act and therefore pursuant to section 168.2 of the Act, they contravened the same provisions.
20. The Thompsons, in their capacities as directors or senior officers, failed to put in place adequate systems for the management of Union, including the flow of necessary information to them, that would allow them to make decisions on an informed basis and to take the necessary steps to resolve any concerns or suspicions that came to their notice.
21. The Thompsons, in their capacities as directors or senior officers, failed to exercise the care, diligence, and skill of reasonably prudent persons. Accordingly, they breached sections 118 and 135 of the former Company Act R.S.B.C. 1996, c. 63.

Union and the Thompsons' responsibility as gatekeepers

22. Union, and the Thompsons as directors of a registrant, had a duty, as gatekeepers to the securities market, to refuse to engage in conduct, which would tend to bring the integrity of the capital markets into disrepute and to ensure that they did not assist in, or permit, conduct by clients, which would have a similar effect. They failed in this duty because they failed to design, establish, implement and supervise a compliance regime appropriate to the nature, scale, complexity and risks associated with Union's business.

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Public Interest

- ¶ 3 The conduct of Union and the Thompsons as described in this agreement was contrary to the public interest.

Mitigating Factors

- ¶ 4 The sanctions that would otherwise be appropriate in the public interest are mitigated by the fact that on April 18, 2006, an IDA hearing panel approved a settlement between Union and the IDA (the IDA Settlement) in which:
1. Union and John Thompson admitted that they failed to develop and implement adequate compliance systems to ensure effective supervision at Union;
 2. Union agreed to pay \$1 million to the IDA;
 3. Union agreed to retain the services of Grant Thornton or another similarly qualified external compliance consultant for three years from the date of the settlement;
 4. John Thompson agreed not to act as Union's UDP; and
 5. Union agreed to add an independent director to its board.

¶ 5 **Undertakings**

Monetary Payments

1. Immediately upon signing this agreement:
 - (a) John Thompson will pay \$250,000 to the Commission, of which \$50,000 represents a contribution toward the costs of the investigation,
 - (b) Rex Thompson will pay \$200,000 to the Commission, of which \$40,000 represents a contribution toward the costs of the investigation, and
 - (c) Norman Thompson will pay \$175,000 to the Commission, of which \$30,000 represents a contribution toward the costs of the investigation.

Audit of Union's Compliance and Supervision Practices

2. Union will engage an independent accounting firm, approved by the Executive Director, to perform, for four successive years commencing in 2006, an annual audit of Union's compliance and supervision practices. The audit will be performed in accordance with Canadian GAAS, as that term is defined in National Instrument 14-101 Definitions.

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3. The purpose of the audit will be to determine whether, in the auditor's professional opinion, Union is in compliance, in all material respects, with:
 - (a) IDA Regulations 1300.1(a), (b), (e), (g), (h), (i), (l) and (m) and 1300.2(a), and
 - (b) IDA Policy No. 2, Parts II A. and B., III and IV,

(the Requirements) which contain account opening and supervision requirements.
4. Union will provide the auditor with access to Union's premises, directors, officers, employees and consultants, and any and all records and other information, except records and information subject to solicitor-client privilege, the auditor may require and will otherwise co-operate fully with each audit in every respect.
5. Union will require the auditor to provide a written report to the Executive Director and Union by October 31 of each audit year. The report will be prepared in accordance with section 5815 of the Handbook of the Canadian Institute of Chartered Accountants, and identify all periods covered by the report.
6. Union will pay all costs associated with the audits and the engagement of the auditor.

Conditional Registration

7. If the auditor is unable to state that Union is in compliance, in all material respects, with the Requirements:
 - (a) subject to their opportunity to be heard by the Executive Director, John Thompson, Rex Thompson and Norman Thompson will each:
 - (i) immediately surrender his registration as a director or officer of a registrant under the Act; and
 - (ii) refrain from reapplying for registration as a director or officer of a registrant under the Act for three, two and one years, respectively, from the end of the calendar year in which the auditor's opinion is rendered;

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- (b) the Executive Director may rely on the auditor's opinion to conclude that the Thompsons are not suitable for registration as directors and officers of a registrant and to refuse to register John Thompson, Rex Thompson and Norman Thompson in those capacities under the Act for three, two and one years, respectively, from the end of the calendar year in which the auditor's opinion is rendered; and
- (c) John Thompson, Rex Thompson and Norman Thompson each consent to the Commission:
 - (i) withdrawing from the IDA the power to grant, renew, or reinstate their registration, and to refuse to do the same, and
 - (ii) referring those matters to the Executive Director for a decision

for the sole purpose of enabling the Executive Director to exercise her discretion under section 35 of the Act as contemplated by the paragraph immediately above.

- 8. The terms immediately above relating to the registration of John Thompson, Rex Thompson, and Norman Thompson will cease to apply if the auditor's opinion, for four successive years, is that Union is in compliance in all material respects with the Requirements.

Order

- ¶ 6 The Executive Director will issue an order under section 161(1)(a) of the Act that Union and each of the Thompsons comply fully with the Act, the Securities Rules, R.B.C. Reg. 194/97, and any applicable regulations and policies.

Consent to Reciprocal Orders

- ¶ 7 Any securities regulator anywhere in Canada may rely on the facts admitted in this settlement solely for the purpose of making an order similar to the one contemplated immediately above.

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Waiver

¶ 8 Union and the Thompsons waive any right they may each have, under the Act or otherwise, to a hearing, hearing and review, judicial review or appeal related to, in connection with, or incidental to this settlement, other than as agreed upon by the parties.

¶ 9 April 18, 2006

¶ 10 John P. Thompson)
Union Securities Ltd.
(Signing Authority)

Gary Snarch)
Witness Signature)
Gary Snarch)
Witness Name (please print))
300 – 1168 Hamilton)
Van BC)
Address)
Lawyer)
Occupation)

¶ 11 April 18, 2006

John P. Thompson

¶ 12 John P. Thompson

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¶ 13 April 18, 2006

Rex W. Thompson

¶ 14 Rex W. Thompson

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¶ 15 ¶ April 16, 2006

Norman F. Thompson

Norman F. Thompson

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¶ 16 April 18, 2006

Brenda Leong

¶ 17 Brenda M. Leong
Executive Director