



INVESTMENT DEALERS
ASSOCIATION OF CANADA

bulletin



ASSOCIATION CANADIENNE DES
COURTIERS EN VALEURS MOBILIÈRES

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Discipline

Discipline Penalties Imposed on Lawrence Kenneth Freedman – Violations of By-law 29.1 and Regulation 1300.1

Person Disciplined A Hearing Panel of the Investment Dealers Association of Canada, (“the Association”) appointed pursuant to IDA By-law 20 has imposed discipline penalties on Lawrence Kenneth Freedman, at all material times a Registered Representative – Options and Director, Trading Officer (Executive Vice President) and Branch Manager with the Toronto office of Rampart Securities Inc. (“Rampart”), a former Member of the Association.

By-laws, Regulations, Policies Violated A Disciplinary Hearing was held June 13th and 15th, 2005 in Toronto Ontario. Pursuant to an Agreed Statement of Facts and Contraventions, the Hearing Panel found that between January 1999 and February 2000, Mr. Freedman ought to have made further enquiries and taken steps to personally ensure that the transactions involved in the issuance of shares of an Ontario issuer to offshore clients (and their subsequent disposition) complied with the *Securities Act*, R.S.O. 1990 c.S.5, as amended, and all Regulations thereto, as well as the Interpretation Note to Policy 1.5 of the Ontario Securities Commission relating to the distribution of securities outside of Ontario. Mr. Freedman was thereby found to have engaged in business conduct unbecoming a registered representative or detrimental to the public interest, contrary to Association By-law 29.1.

The Hearing Panel also found that between January 1999 and February 2000, Mr. Freedman ought to have performed adequate and continual due diligence to learn the essential facts relative to seven (7) corporate clients and one individual client, and to ensure the acceptance of every order for their accounts was within the bounds of good business practice, contrary to Association Regulations 1300.1 (a) and (b) (as they then were).

Penalty Assessed

The discipline penalties assessed against Mr. Freedman were:

- payment to the Association of a fine in the amount of \$35, 000;
- a three (3) year suspension commencing June 15th, 2005;
- a requirement that he successfully rewrite the examination based on the Conduct and Practices Handbook for Securities Industry

- Professionals as a condition of re-registration; and
- payment of costs for the investigation and prosecution of this matter in the amount of \$15,000

Summary of Facts

Between August 1998 and September 1999, Mr. Freedman took over or opened accounts for insiders of Tropika International Limited (“Tropika”), an Ontario corporation whose shares were publicly traded in Ontario on the Canadian Dealing Network. Mr. Freedman also opened accounts at Rampart for a number of offshore companies, some of which had connections to insiders of Tropika, or were referred to Mr. Freedman by insiders of Tropika.

On numerous occasions between January 1999 and February 2000, shares in Tropika were issued to Mr. Freedman’s offshore clients and others. These shares were deposited into accounts administered by Mr. Freedman at Rampart. No prospectus had been filed by Tropika with the Ontario Securities Commission in relation to the issuance of those shares, and no instructions were given by Tropika to its transfer agent to place restrictions on the disposition of those shares. The shares were deposited into accounts administered by Mr. Freedman at Rampart well inside any possible holding period required by the *Securities Act* and often within days of being issued. The shares were then sold, transferred, or journaled out of Mr. Freedman’s clients’ accounts before the expiry of any applicable hold period.

Pursuant to the Agreed Statement of Facts, Mr. Freedman admitted and acknowledged that he ought to have made further enquiries and taken steps to personally ensure that the transactions involving the issuance of Tropika shares to his offshore clients (and their subsequent distribution) complied with the prospectus requirements of the *Securities Act*, the hold requirements set out in Section 72 (4) of the *Act*, and the Interpretation Note to OSC Policy 1.5 – “Distribution of Securities Outside of Ontario”.

Furthermore, there were multiple crosses and transfers of Tropika shares, and transfers of cash between the offshore client accounts and the accounts insiders of Tropika administered by Mr. Freedman. In particular, there were a number of highly questionable crosses that were executed between Mr. Freedman’s client accounts. As well, the proceeds of the sales of Tropika shares and the offshore client accounts were distributed to third parties, including insiders of Tropika and Tropika itself without question. Mr. Freedman admitted that the cumulative nature of the crosses, transfers, journaling, and distributions of cash should have prompted him to more fully investigate the account holders and the operation of the accounts, given that this activity, alone or in combination, was potentially indicative of conduct contrary to the public interest, including money laundering, share manipulation, and insider trading. In addition, Mr. Freedman admitted that he did not make ongoing enquiries to investigate his account holders or the activity in their accounts. Given the insider status of some of his clients, and the interrelated offshore companies, Mr. Freedman failed to meet his continuing responsibility to know both his clients and the securities being sold by or to his clients.

Mr. Freedman has not worked in the industry in a registered capacity since September 30th, 2002.

Kenneth A. Nason
Association Secretary