



INVESTMENT DEALERS  
ASSOCIATION OF CANADA

# bulletin



ASSOCIATION CANADIENNE DES  
COURTIERS EN VALEURS MOBILIÈRES

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**BULLETIN # 3504**

January 23, 2006

## Discipline

### **Discipline Penalties Imposed on Sean Shanahan, Stephan Katmarian and Nicole Brewster; Violations of By-law 29.1 and Regulation 1300**

Person Disciplined A Hearing Panel (Panel) appointed pursuant to IDA By-law 20 has imposed discipline penalties on Sean Shanahan, Stephan Katmarian and Nicole Brewster, (collectively the Respondents) at the relevant time all were registered representatives at the University Avenue Branch of Rampart Securities Inc., (Rampart), in Toronto, Ontario a former Member of the Investment Dealers Association of Canada.

By-laws, Regulations, Policies Violated In a decision rendered on August 9, 2005, following a disciplinary hearing that commenced on April 18, 2005 and concluded on June 13, 2005, the Panel found Mr. Shanahan, Mr. Katmarian and Ms. Brewster guilty of having engaged in business conduct unbecoming or detrimental to the public interest, contrary to Association By-law 29.1. During the period of April and May 2000, while registrants at Rampart, they participated in a trading scheme in which the shares of Alive International Inc., (Alive) were purchased and sold at contrived prices for the purposes of unduly benefiting one Rampart client, NOA Ltd., (NOA) to the detriment of other clients at Rampart.

In a second charge involving Mr. Shanahan and Mr. Katmarian, the Panel found both guilty of having acted contrary to Association Regulation 1300.1 a) and b) in that during the period of November 1998 to November 1999, while registrants at Rampart and members of Rampart's Corporate Finance Group, they failed to use due diligence relative to a group of clients who opened accounts for the purpose of purchasing shares in three private corporations, and thereby failed to learn the essential facts relative to the clients.

In a decision on penalty rendered on January 10, 2006 the Panel found that the type of conduct relating to the trading scheme was intentional and designed to create a scheme leading to the conclusion that serious sanctions must be imposed. The Panel also found that the scheme involved a high degree of planning and organization and involved a large number of clients which also called for severe sanctions. While Mr. Katmarian

was as involved as Mr. Shanahan, Ms. Brewster was essentially the assistant to Mr. Shanahan, though her efforts went beyond being an assistant. The Panel found that Ms. Brewster must be treated as having much less involvement than Mr. Shanahan or Mr. Katmarian. The Panel also found that the Respondents must be treated as first time offenders and that they exhibited a degree of co-operation with the Association.

With respect to the second charge, which involved an RRSP strip scheme, the hearing panel found that while investments in the RRSP strip scheme have not reached maturity, there is clearly possible harm to clients and to the securities market.

Penalty  
Assessed

The following penalties were assessed against Mr. Shanahan:

- Permanent bar from approval with the Association;
- A fine in the amount of \$325,000;
- Disgorgement in the amount of \$50,009.50; and
- Costs in the amount of \$107,344.08

Total: \$482,353.58

The following penalties were assessed against Mr. Katmarian:

- A ban from registration in any capacity with the Association for a period of 15 years and as a condition of re-approval he shall successfully re-write the Conduct and Practices Handbook Exam;
- A fine in the amount of \$275,000;
- Disgorgement in the amount of \$47,983.50; and
- Costs in the amount of \$85,875.27

Total: \$408,858.77

The following penalties were assessed against Ms. Brewster:

- A ban from registration in any capacity with the Association for a period of 5 years and as a condition of re-approval she shall successfully re-write the Conduct and Practices Handbook exam;
- A fine in the amount of \$25,000; and
- Costs in the amount of \$21,468.80

Total: \$46,468.80

Summary  
of Facts

The facts relating to the first charge pertained to Mr. Shanahan, Mr. Katmarian and Ms. Brewster and a trading scheme. The trading scheme involved clients of Mr. Shanahan, Mr. Katmarian and Henry Cole, then President of Rampart, selling their Alive shares to NOA at prices between \$1.00 and \$1.25 per share. Mr. Shanahan, Mr. Katmarian and Ms. Brewster also sold their own personal shares to NOA. NOA would then resell the shares within minutes or hours to other clients of Rampart with a mark-up on the price. NOA profited each time it bought and sold Alive shares. When the price of Alive shares fell significantly in April 2001, NOA's account was closed at Rampart. By that time, NOA had realized a profit of \$1,173,500 from trading in Alive shares.

The Panel found that Mr. Shanahan, Mr. Katmarian and Ms. Brewster were very much involved, in one way or another, with three key companies (NOA, Saks Fund International Limited (Saks) and Constantine Inc.(Constantine)) that participated in the scheme of contrived prices. The panel determined that Mr. Shanahan had a beneficial interest in NOA as well as in Saks. The alleged principals of Saks requested and received information from Ms. Brewster, that would normally be solely of import to and the responsibility of the beneficial owner of the Saks accounts. While the Panel did not find evidence that Mr. Katmarian had a beneficial interest in Constantine, for which he was the registered representative and which also profited from trading in Alive, they found troubling evidence of his involvement with the company; the Panel found that Mr. Katmarian's trip to the Bahamas on May 28, 1998 was very suspicious because Constantine was incorporated on May 29, 1998, all prior to the completion of the Alive IPO. The Panel also determined that a substantial number of shares of Alive were transferred from Saks and Constantine to NOA, which traded exclusively in Alive shares throughout the material time.

The Panel dismissed the above charges against Derek Hume, a registrant at Rampart who was working in the capacity of a trader during the relevant time. The panel determined that while Mr. Hume may have facilitated some of the Alive trades, he would have merely been processing crosses, which, in his opinion, were not unusual against a thinly traded stock such as Alive and ones that were within the bid and offering prices.

With respect to the second charge, Mr. Shanahan and Mr. Katmarian opened accounts for approximately 80 clients for the purposes of investments in three private corporations. The Panel found that the purchase orders taken for these clients could not be considered to be within the bounds of good practice, given the nature of the transaction, a locked-in RRSP stripping scheme. An allegation related to the second charge that Mr. Shanahan and Mr. Katmarian failed to ensure that the purchases of shares in three private corporations were appropriate for the group of clients was dismissed by the Panel. The Panel found that no recommendations were made to the clients by Mr. Shanahan and Mr. Katmarian.

Mr. Shanahan, Mr. Katmarian and Ms. Brewster are no longer registrants with any IDA Member firm.

Kenneth A. Nason  
*Association Secretary*