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Discipline

Discipline Penalties imposed on Robert Faiello – Violations of Regulation 1300.1(a) and By-law 29.1

Person Disciplined A Hearing Panel appointed pursuant to IDA By-law 20 has imposed discipline penalties on Robert Faiello, at the material times a Registered Representative employed at the Richmond Hill office of RBC Dominion Securities Inc. (“RBC DS”), a Member of the IDA.

**By-laws,
Regulations,
Policies Violated** On January 16, 2007, the Hearing Panel considered, reviewed, and accepted a Settlement Agreement negotiated between staff of the IDA Enforcement Department (“Staff”) and Mr. Faiello.

Pursuant to the Settlement Agreement, Mr. Faiello admitted that between May and November 2004, he engaged in business conduct or practice which was unbecoming or detrimental to the public interest, contrary to By-law 29.1 in that he unknowingly facilitated a manipulation by accepting trade orders for shares of Pender International Inc. (“Pender”) for one of his client accounts. In addition, he failed to exercise due diligence to learn and remain informed of the essential facts relative to this same client and its respective trade orders in Pender, contrary to Regulation 1300.1(a).

Penalty Assessed The discipline penalties assessed against Mr. Faiello are:

- A suspension from approval in any registered capacity with the Association for a period of two years, effective November 15, 2006;
- A fine in the amount of \$20,000 (which equals approximately 1.5 times the financial benefit accrued to Mr. Faiello from trading in Pender shares);
- Successful completion of the Conduct and Practices

Handbook examination within 6 months from any subsequent registration with a Member firm.

Mr. Faiello is also required to pay \$5,000 towards the costs of the Association's investigation and prosecution of this matter.

Summary of Facts At all material times, Pender was a mining exploration company incorporated in Ontario with its head office in Thornhill, Ontario. Pender traded on the U.S. National Association of Securities Dealers Over the Counter Bulletin Board.

In July 2004, Pender was trading at approximately US \$0.08 per share. Between July 14, 2004 and October 13, 2004, there was no trading in the stock. On October 14, 2004, the shares opened at \$.30 and closed at the same price on a volume of 12,000 shares. Over approximately the next 35 days, the shares traded a cumulative volume of over 2 million shares with its price peaking at US\$11.35 on November 18, 2004.

As a result of Staff's investigation, which included a review of trading records at various Member firms, it is Staff's conclusion that during the months of October and November 2004, Pender was the subject of a market manipulation whereby the increase in the price in Pender was artificial and caused by trading activity arranged between various related accounts ("the Manipulation").

One of the related accounts was a RBC DS corporate account in the name of Kamposse Financial Corp. ("Kamposse"). During the material time, the Kamposse account was the main seller of Pender stock. Mr. Faiello was the Investment Advisor for the Kamposse account held at RBC DS.

The Kamposse account held at RBC DS was opened on June 24, 2004. Mr. Faiello was referred to Kamposse by MC, whom he had met in the course of prospecting business owners a year prior. Mr. Faiello attended the office of Trillion Financial Group ("Trillion"), a financial services company in Thornhill, Ontario, where MC introduced him to KJ, a high net-worth client who wanted to open an investment account. Also present at the meeting was an individual who introduced himself as Michael Douglas. Unbeknownst to Mr. Faiello, the individual who introduced himself as Michael Douglas was in fact Michael Mitton, an individual with an extensive history of fraud convictions in Canada including securities fraud.

It is Staff's opinion that Mr. Mitton and MC were two of the operating minds behind the broader scheme to manipulate Pender stock.

Following this initial meeting with KJ and the others, an account was

opened in the name of Kamposse. It was Mr. Faiello's belief that KJ was the beneficial owner of the Kamposse account.

For almost a month, there was no activity in the Kamposse account. Then in late July 2004, Mr. Faiello was asked to attend the Trillion offices and pick up a share certificate, representing 47,000 shares in Pender, to be deposited into the Kamposse account. The share certificate came from an American Transfer Agent, was in street form, named RBC DS as the holder, and named MC as the recipient. Mr. Faiello did not question the origin of these shares.

Throughout October and November 2004, the Kamposse account aggressively sold its holdings in Pender stock. Between October 15 and November 17, 2004, it accounted for over 20% of the total trading volume in Pender. All trade instructions were provided on an unsolicited basis. The total commissions earned by Mr. Faiello as a result of the Pender trades executed in the Kamposse account was \$12,694.59.

Despite the volume of the trading and the significant increase in the price of Pender stock during this period, Mr. Faiello did not make any inquiries of his client about this trading activity. He simply acted as an order-taker and failed to fulfill his responsibilities as a gatekeeper of the capital markets

More specifically, Mr. Faiello:

(1) Did not question Michael Mitton's relationship with Kamposse, notwithstanding his presence at the initial meeting when the Kamposse account was opened.

(2) Did not question the origin of the initial share certificate that was deposited in the Kamposse account, especially where MC, a non-authorized person for the Kamposse account, was named recipient of the share certificate.

(3) Did not question Kamposse's active selling of large volumes of Pender stock, notwithstanding the fact that the price of the stock continued to rise significantly within a matter of four weeks.

(4) Performed little, if any, due diligence on Pender. Had he performed any due diligence, he would have discovered the following:

- a. MC was President and Director of Pender as of October 25, 2004
- b. KJ, the beneficial owner of the Kamposse account, was also the owner of KJ Holdings Inc., which acquired 36.5% of Pender stock in July 2004. He was also the father of Pender's Chairman of the Board of Directors appointed on Oct. 25, 2004
- c. Kamposse, according to the account opening

documentation, shared the same address and telephone number as Pender.

While Mr. Faiello had no knowledge of the Manipulation, he ought to have recognized that the Kamposse account was being used by his client to further the Manipulation.

By mid-November, senior management at RBC DS began to question the active trading in the Kamposse account. Their concerns worsened after a deposit of a new share certificate for 3.4 million Pender shares was made in the Kamposse account on November 16, 2004. This prompted the branch manager to question the client directly regarding the origin of the stock certificate and the relationship between Kamposse and Pender. The branch manager was not satisfied with the responses he received. As a result, RBC DS decided not to allow the recently deposited 3.4 million shares to be traded and shut down the Kamposse account. Shortly thereafter, the trading in Pender in all of the related accounts involved in the Manipulation ceased and the share price of Pender dropped dramatically.

RBC DS alerted the Ontario Securities Commission (“OSC”) of the situation and on December 10, 2004, the OSC issued a cease trade order in Pender stock against Michael Mitton, MC and various corporate entities including Kamposse.

Mr. Faiello was dismissed in good standing from RBC DS on November 15, 2006. He is currently not registered with any Member firm of the Association.

For further details, please see the Settlement Agreement posted on the Association’s website at www.ida.ca. The Hearing Panel’s reasons will be posted on the Association’s web site when they become available.

Kenneth A. Nason
Association Secretary