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**BULLETIN #3634**

June 11, 2007

## Discipline

### **Discipline Penalties Imposed on Octagon Capital Corporation; Violations of By-law 29.1 and Regulation 1300.2**

**Person Disciplined** A Hearing Panel appointed pursuant to IDA By-law 20 has imposed discipline penalties on Octagon Capital Corporation at all material times a Member of the IDA.

**By-laws, Regulations, Policies Violated** In its written liability decision dated April 3, 2007, a Hearing Panel found that Octagon Capital Corporation (Octagon) violated By-Law 29.1 and Regulation 1300.2 for participating in an illegal private placement distribution which was not in accordance with the provisions of the Ontario, Alberta and British Columbia *Securities Acts* thereby engaging in business conduct unbecoming or detrimental to the public interest.

**Penalty Assessed** Following penalty submissions heard on May 10, 2007, Octagon has been assessed a fine in the amount of \$50,000 with no costs.

**Summary of Facts** The Hearing Panel found that, between July 2002 and June 2003, Octagon facilitated the private placement of two Bright Star Venture (BSV) debentures – in 97 client accounts opened by Barry (Sai-Kwong) Leung, at the material time an Approved Person with Octagon (See Bulletin #3477) – without performing due diligence and ensuring that the debentures had been approved for distribution, that a prospectus had been issued, or that the clients were qualified to invest in the debentures under the appropriate Rules.

The Panel found that there was no evidence that Octagon was aware that this was an RRSP stripping scheme until May 2003. The

activity was closed by Octagon on June 12, 2003.

Mr. Leung opened the 97 accounts for the purpose of liquidating the clients' holdings in locked-in retirement savings plans (LIRAs) and to reinvest the proceeds of sale into accounts under the administration of Octagon. As each LIRA account was opened, transfers arrived in the form of cash which was then used by Octagon to subscribe to the BSV debentures. Although the clients had agreed to purchase the BSV debentures prior to opening the accounts, this did not release Octagon, the plan carrier for the specific LIRA accounts, from its responsibilities.

In a Settlement Agreement with the IDA, Barry Leung admitted that he had contravened IDA By-laws and Regulations as well as the Securities Acts of British Columbia, Alberta and Ontario. On November 4, 2005, Mr. Leung was prohibited from registration approval with any IDA Member firm for a period of five years and fined \$100,000.

In addition, the Hearing Panel found that the evidence did not support two further sets of allegations contrary to By-law 29.1, Regulation 1300.2 and Policy 2, that between 2003 and 2004 Octagon failed to make adequate inquiries into six accounts under the name of Benil to ensure that such accounts were not being directed by someone who they knew or ought to have known to have had a history of securities violations and/or an association with organized crime; and that between 2003 and 2004, Octagon failed to notify clients that there was a potential conflict of interest involving their Registered Representative and Musicrypt Inc., a publicly traded company listed on the TSX Venture Exchange, in which they were investing.

Kenneth A. Nason  
*Association Secretary*