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*Contact:*  
Douglas Walker  
Chief Enforcement Counsel  
(416) 943-6909

*For distribution to relevant parties within your firm*

**BULLETIN # 2542**  
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## Discipline

### **Discipline Penalties Imposed on RBC Dominion Securities Inc. - Violation of IDA Regulations 1300.1 (a), (c), 1300.2, By-law 19.3(A)(iii)[now 20.10(b)(3)], and By-law 29.1**

**Member Disciplined** The Alberta District Council of the Investment Dealers Association of Canada has imposed discipline penalties on **RBC Dominion Securities Inc.**, a Member of the Association. On December 14, 1998, the District Council considered, reviewed and accepted a settlement agreement that had been negotiated by the Association Enforcement Division staff with RBC Dominion Securities Inc.

**By-laws, Regulations, Policies Violated** Pursuant to the settlement agreement, RBC Dominion Securities Inc. has admitted that during the period January 1993 to February 1994, it :

- A. failed to adequately supervise client accounts by failing to ensure that a registered representative in the Member's Edmonton Branch Office:
  - updated new account application forms to reflect material changes to the personal or financial circumstances and investment objectives of clients, contrary to Regulation 1300.1(a);
  - maintained new account application forms for client accounts, contrary to Regulation 1300.2;
  - used due diligence to ensure that recommendations for client accounts were appropriate for the clients and in keeping with their investment objectives, contrary to Regulation 1300.1(c); and
- B. that during the period from September 1985 to February 1994 it engaged in business conduct or practice unbecoming a Member or detrimental to the public interest, contrary to By-law 19.3(A)(iii)[now 20.10(b)(3)] and By-law 29.1, with respect to its Edmonton Branch Office, by failing to ensure:
  - that its supervision procedures for estate accounts were followed by its employees;
  - that receipts were obtained for delivery of securities to clients by sales personnel

in compliance with industry internal control standards; and

- that the issuance of cheques payable to a third party from client accounts were authorized by a letter of authorization from the client, in accordance with industry practice.

**Penalty Assessed** The discipline penalty assessed against RBC Dominion Securities Inc. is a fine in the amount of \$225,000.00. In addition, RBC Dominion Securities Inc. is required to pay \$20,000.00 toward the Association's costs of investigation of this matter.

**Summary of Facts** RBC Dominion Securities Inc. employed Mr. John Henry Lorencz as a registered representative in its Edmonton, Alberta office until May 4, 1994 when his employment was terminated for cause due to the discovery of irregularities regarding the handling of several client accounts and the issuance of cheques from client accounts.

In July 1993 the Compliance Department of RBC Dominion Securities Inc. became aware that Mr. Lorencz had written and issued to his clients a research report regarding Thermo Tech Technologies Inc., a VSE listed security that was considered speculative in nature, without having the report approved by the Member. In addition, RBC Dominion Securities Inc. discovered that one of Mr. Lorencz's clients held a significant position in Thermo Tech and that Mr. Lorencz also held shares of Thermo Tech in his personal account.

As a result, the Compliance Department of RBC Dominion Securities Inc. reviewed all of Mr. Lorencz's client accounts that held positions in Thermo Tech. In February 1994 the Compliance Department of RBC Dominion Securities Inc. became aware that cheques had been issued from client accounts to Mr. Lorencz and other third parties without letters of authorization from the clients.

It was ultimately determined that over the course of a number of years Mr. Lorencz had misappropriated over \$2 million of client assets through the issuance of cheques and transfer of securities from client accounts.

It was determined by the Association Enforcement staff that the Member failed:

- to ensure that its Edmonton Branch Office personnel complied with industry standards of conduct regarding controls over the issuance of cheques from client accounts to third parties, and the delivery of securities from client accounts by Mr. Lorencz;
- to ensure that its account supervision procedures for the handling of estate accounts by Mr. Lorencz acting as Executor were complied with by the Edmonton Branch Office personnel; and
- to adequately supervise client accounts to ensure that Mr. Lorencz maintained a new account application form for each client account, that he updated new account application forms in a timely manner to reflect any material changes to the personal or financial circumstances and investment objectives of his clients, and that the recommendations made by Mr. Lorencz for his clients were appropriate for the clients and in keeping with their investment objectives.

The Association Enforcement staff concluded that the Member's failure to ensure compliance with its policies and procedures for account supervision and internal control with respect to client cash and securities, as required by Association By-laws

and Regulations, contributed to the ability of Mr. Lorenz to misappropriate funds from his clients.

In determining the appropriate disciplinary penalty in these circumstances, the Association has taken into account as a mitigating factor the fact that the Member conducted its own internal investigation of these matters, informed the affected clients, and has made full restitution to all of the affected clients, including lost interest, accounting and legal fees, and other costs associated with the misappropriations.

In addition, the Association has taken into account the fact that the Member has enacted and submitted to the Association comprehensive policies and procedures relative to the supervision of accounts and internal controls, which are acceptable to the Association. The Member has also provided the Association with information satisfactory to the Association that the Edmonton Branch Office personnel are complying with such policies and procedures.

Mr. Lorenz has already been disciplined by the Association for his misconduct and has been permanently prohibited from being granted Approval in any capacity with a Member. Please see Bulletin No. 2411, October 20, 1997.

Lyn M. Gilchrist  
*Association Secretary*