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BULLETIN # 2996

May 22, 2002

Discipline

Discipline Penalties Imposed on First Delta Securities Inc., George (Geordie) Aubrey Trusler, Frederick Meredith Jr. and Gail Louise Stopforth – Violations of Regulation 1300.1, 1300.2 and By-Law 29.1

Persons Disciplined The Ontario District Council of the Investment Dealers Association of Canada (the “Association”) has imposed discipline penalties on First Delta Securities Inc. (“First Delta”), a Member of the Association, and three of its current or former Directors and Officers: George (Geordie) Aubrey Trusler (“Trusler”), Frederick Meredith Jr. (“Meredith”) and Gail Louise Stopforth (“Stopforth”).

By-laws, Regulations, Policies Violated On May 22, 2002, the Ontario District Council considered, reviewed and accepted a settlement agreement negotiated between First Delta, Trusler, Meredith, Stopforth and Association Staff.

Pursuant to the Settlement Agreement, First Delta admitted that it violated Association Regulation 1300.1(a):

- Between August 1998 and June 1999, First Delta did not know several of its clients who used First Delta to facilitate the operation of an unregistered telemarketing operation (“the boiler room”) and to manipulate the price of the stock of a Florida Company (“the Florida Company”) that was traded on the U.S. Over-the-Counter Bulletin Board.
- Between January 1999 and June 1999, First Delta opened accounts and conducted transactions for several non-resident clients without verifying their identities as required by Association Compliance Bulletin C-123 relating to the Regulations under the *Proceeds of Crime (Money Laundering) Act*.

First Delta also admitted that between January and May 1999, it violated Association By-Law 29.1 by failing to report trading in the Florida Company's stock with Canadian Dealing Network Inc. (now Canadian Unlisted Board Inc.), as required by s. 154, Regulation 1015, Part VI, made under the Ontario *Securities Act*.

Trusler, Meredith and Stopforth admitted to violating Association Regulation 1300.2 by failing to adequately supervise Dimitrios Boulieris ("Boulieris"), one of First Delta's Registered Representatives, who, between approximately November 1998 and June 1999, assisted several of First Delta's clients to operate a boiler room and to manipulate the price of the Florida Company's stock.

Trusler also admitted to violating Association Regulation 1300.2 by failing to maintain effective account supervision procedures for First Delta.

Penalty
Assessed

First Delta has agreed to pay a fine in the amount of \$ 600,000.00 and to have its Membership in the Association terminated in ninety days. Effective immediately and pending the termination of its Membership, First Delta will, *inter alia*, not be able to purchase securities for client accounts or reduce its capital and will have to report to the Association with respect to its capital position and account transfer status. First Delta has also agreed to consent to the appointment of a Monitor, Receiver or Trustee should the Association request its consent to effect such an appointment.

Trusler has agreed to pay a fine in the amount of \$ 50,000.00 and to be suspended for a period of 6 months from holding any supervisory position. He must also re-write and pass the examination for Partners, Directors and Officers prior to being reinstated in any supervisory position.

Meredith has agreed to pay a fine in the amount of \$ 30,000.00 and to be suspended for a period of thirty days from any supervisory position. He must also re-write and pass the examination for Partners, Directors and Officers prior to being reinstated in any supervisory position.

Stopforth has agreed to pay a fine in the amount of \$ 30,000.00 and to be suspended for a period of thirty days from any compliance position. She must also re-write and pass the examination for Partners, Directors and Officers prior to being reinstated in any compliance position.

First Delta, Trusler, Meredith and Stopforth must also pay \$ 20,000.00 toward the costs of the Investigation.

Facts

Between July 1998 and June 1999, Boulieris was employed at First Delta as a registered representative. While at First Delta, Boulieris opened accounts for domestic and off-shore companies that were directly or indirectly controlled by a client ("the Client") who had a large equity interest in a small Florida company ("the Florida Company"). Through the use of these accounts, and other friendly accounts, the stock price of the Florida Company was manipulated through high volume trading at inflated prices. Between January 1999 and April 1999, the price of the Florida Company's stock increased from \$ 4.00 per share to \$ 17.00 per share.

Boulieris also facilitated the Client's operation of a boiler room. The boiler room would solicit non-resident investors ("the non-resident investors") to purchase the Florida Company's shares. Boulieris would then open accounts at First Delta for the non-resident investors and would execute the trading instructions received from the boiler room.

The identity of the non-resident investors was not verified as required by the Association's Compliance Bulletin relating to Regulations under the *Proceeds of Crime (Money Laundering) Act*. Also, accounts for some of the non-resident investors were opened without the necessary approvals of Meredith and Stopforth. Boulieris was also able to provide the Client with unassigned First Delta account numbers which were then assigned by the boiler room to the non-resident investors in advance of them opening accounts at First Delta.

First Delta and Boulieris' supervisors failed to make reasonable inquiries to ascertain:

- (a) the Client's position and involvement in the Florida Company;
- (b) the relationship between the Client, the Florida Company and other accounts at First Delta that were trading in the Florida Company's stock; and
- (c) the source and circumstances relating to the purported referrals of the non-resident investors to Boulieris by the boiler room.

Trusler, Meredith and Stopforth were responsible for supervising Boulieris. An adequate supervisory review of Boulieris' trading should have alerted First Delta to the following trading irregularities:

- (a) The Client held a large position in the Florida Company through his corporate accounts at First Delta and elsewhere.
- (b) A large number of non-resident investors were opening accounts at First Delta for the sole purpose of purchasing the Florida Company's shares.
- (c) Boulieris was identifying all of the purchase orders for the Florida Company's shares by the non-resident investors as being "unsolicited".
- (d) Almost all of the purchases of the Florida Company's shares by the non-resident investors were filled with shares that were owned by the Client through his corporations.
- (e) The price of the Florida Company's shares paid by the non-resident investors was frequently not within the reported price range for that stock.
- (f) During March and April 1999, the account of a Bahamian Company at First Delta, whose principal was an acquaintance of the Client, was excessively and almost exclusively buying and selling the Florida Company's shares.
- (g) The unreported trading by Boulieris in the Florida Company's shares often exceeded the volume of the reported trading in that stock.

First Delta's carrying broker also alerted First Delta of its concerns about Boulieris' trading. Notwithstanding these warnings, First Delta continued to employ Boulieris until June 1999. He was dismissed shortly after being interviewed by the R.C.M.P. and the O.S.C at First Delta's offices. In the twelve months that he was employed with First Delta, Boulieris generated \$ 332,706.17 in commissions for First Delta.

Sales Compliance audits conducted by the Association in 1999 and 2000 indicated compliance problems at First Delta, including an absence of written supervisory records, deficient written compliance procedures, a failure to keep a list of clients who were insiders in publicly traded companies and improper controls regarding client address changes and the use of post office boxes as mailing addresses for clients. Although Association Sales Compliance Staff attempted to assist First Delta to comply with the Association's expectations by requiring it to develop a comprehensive Compliance Manual, First Delta only produced the requested Manual in March 2002.

Trusler was the U.D.P. at First Delta and was responsible for maintaining an effective compliance system at First Delta.

Association Staff thanks the Ontario Securities Commission, the U.S. Securities & Exchange Commission and the Royal Canadian Mounted Police for their assistance in this matter.

Kenneth A. Nason
Association Secretary