



INVESTMENT DEALERS
ASSOCIATION OF CANADA

bulletin



ASSOCIATION CANADIENNE DES
COURTIERS EN VALEURS MOBILIÈRES

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For distribution to relevant parties within your firm

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Discipline

Discipline Penalties Imposed on Darko Stjepan Mrakuzic – Violations of By-law 29.1

Person Disciplined	The Pacific District Council of the Investment Dealers Association of Canada (the “Association”) has imposed discipline penalties on Darko Stjepan Mrakuzic, at all material times a registered representative with Pacific International Securities Inc. (“Pacific”), a member of the Association.
By-laws, Regulations, Policies Violated	<p>On January 27, 2004, the Pacific District Council considered, reviewed and accepted a Settlement Agreement negotiated between Mr. Mrakuzic and Association staff.</p> <p>Pursuant to the Settlement Agreement, Mr. Mrakuzic admitted that:</p> <ul style="list-style-type: none"> • In or about November and December 1998 and in or about January 1999, he effected thirty (30) short sales in the account of a client, PFC, contrary to section 56 of the British Columbia <i>Securities Act</i> and contrary to the instructions of Pacific, contrary to Association By-law 29.1; • On or about December 11, 1998, he failed to make Pacific aware of his involvement in a joint venture, contrary to Association By-law 29.1; • Throughout 1999 through to February 2000, he made false or misleading statements to Pacific with respect to the acquisition by himself and family members of shares in Autoco.com, which statements he knew or ought to have known were not true, contrary to Association By-law 29.1; • In or about September 1999, he facilitated a transaction for a client, SHL, through the account of Mrakuzic’s father, in order to circumvent a debt owing by the client, SHL, to Pacific, contrary to Association By-law 29.1.
Penalty Assessed	The penalties assessed against Mr. Mrakuzic include: a fine in the sum of \$30,000, a prohibition against re-approval in any registered capacity for one year which one year period has run from March 2000 to February 2001, 12 months of close supervision as a condition of re-approval in any registered capacity, a condition of re-approval in any registered capacity that Mr. Mrakuzic successfully re-write and pass the examination based on the <i>Conduct & Practices Handbook Course</i> administered by the Canadian Securities Institute, and a prohibition against re-approval in any registered capacity until such time as the fine and the costs herein are paid in full. In addition, Mr. Mrakuzic is required to pay \$2,500.00 towards the Association’s costs of the investigation of this matter.

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Summary
of Facts

Mr. Mrakuzic's client, PFC, maintained a US dollar cash account at Pacific. On or about November 3, 1998, Pacific delivered an e-mail to Mr. Mrakuzic which noted that there appeared to be "numerous short covers in this cash account. Please advise." Mr. Mrakuzic responded to this e-mail by stating that "expected delivery, but due to month end had to buy back in."

Subsequent to that exchange, Mr. Mrakuzic effected thirty (30) undeclared short sales in this client's account, involving four different securities. On January 29, 1999, Pacific issued a memorandum to Mr. Mrakuzic which noted that "the buying-back activity is frequent and appears to be an intentional practice. It is difficult to come to any conclusion other than that you have made a practice of short selling in a cash account deliberately and with the intention of subverting the rules of both Pacific and of the regulatory authorities."

As a result of the short selling activity, Pacific imposed internal discipline on Mr. Mrakuzic which required him to pay \$2,500 to charity.

On December 11, 1998, Mr. Mrakuzic entered into a joint venture by way of agreement with respect to iPhone, an internet device. Mr. Mrakuzic's father and SHL, a client of Mr. Mrakuzic's were also parties to the joint venture agreement. Mr. Mrakuzic failed to make Pacific aware of his involvement in this joint venture until January 12, 2000.

In 1999 and in early 2000, Mr. Mrakuzic was subject to an internal investigation by Pacific. During this investigation, when asked how his wife and father acquired shares in Autoco.com in 1999, he told Pacific that his wife and father had purchased the shares off-the-market from a private investor, when they actually acquired the shares as a result of their participation in the joint venture project described above.

In April 1999, Mr. Mrakuzic introduced SHL to a transaction involving the purchase of a shell company, which company was renamed Autoco.com, in which SHL acquired 446,000 shares. Some of these shares were held at another brokerage firm. In September 1999, Mr. Mrakuzic arranged for SHL to pay US\$75,000, which remained outstanding for the purchase of the shell company. This arrangement involved SHL transferring 45,000 Autoco.com shares to Mr. Mrakuzic's father's account at Pacific. While SHL had its own account at Pacific, that account contained a debit of \$61,449.32 at the time that the Autoco.com shares were transferred. Mr. Mrakuzic's father's account was not in a debit position.

The Autoco.com shares were liquidated from Mr. Mrakuzic's father's account and the proceeds were sent by Mr. Mrakuzic to a party in the US in order to discharge the amount owed by the shell company. If the Autoco.com shares had been transferred into SHL's account at Pacific, then a portion of the sale proceeds would have been applied to the debt that SHL owed to Pacific. Pacific did not ultimately suffer any losses as a result of this transaction.

Mr. Mrakuzic has not previously been the subject of professional discipline by a regulatory body of the securities industry.

Mr. Mrakuzic has not been employed by a Member Firm since February 11, 2000.

Kenneth A. Nason
Association Secretary