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*For distribution to relevant parties within your firm*

**BULLETIN # 3371**  
December 23, 2004

## Discipline

### Discipline Penalties Imposed on Paul Joseph (Paolo) Paliotti; Violations of By-law 29.1 and Regulations 1300 1(c) and 4

Person Disciplined A Hearing Panel appointed pursuant to IDA By-law 20 has imposed discipline penalties on Paul Joseph Paliotti who, at all material times, was a registered representative of RBC Dominion Securities Inc. (RBC), a Member of the Association.

By-laws, Regulations or Policies Violated In its decision rendered on September 28, 2004, following a disciplinary hearing held in Montréal, Québec on August 16 and 30, 2004, the Hearing Panel, after having considered and decided to dismiss each of the preliminary arguments raised by Paul Joseph Paliotti, found the latter guilty of all the violations he was charged with, i.e.:

1. He failed to observe high standards of ethics and professional conduct in the carrying out of his activities and engaged in conduct unbecoming and detrimental to the public interest, contrary to *By-law 29.1* of the Association, in that:
  - A. He unjustifiably modified a client's stated investment objectives and risk tolerance on the Know Your Client update forms for the accounts of five (5) clients without their consent or agreement;
  - B. For almost two years, he concealed from his employer his failure to execute a client's instructions and this client's complaint for losses resulting from this failure;
  - C. Without the knowledge or authorization of his employer, he admitted to seven (7) clients his responsibility for their portfolio's value;
  - D. Without the knowledge or authorization of his employer, he committed his employer by issuing letters to the clients guaranteeing the prior value of their investments and covering the capital losses resulting from his mismanagement of their accounts;

- E. He concealed or attempted to conceal from a client the losses resulting from his mismanagement of this client's account, by covering these losses with a guarantee on her account, obtained from a third party, without her knowledge or consent;
  - F. He failed to update the Know Your Client forms for the accounts of two clients in order to indicate in these forms that these clients had a financial interest in each other's account due to the fact that one client's account was guaranteeing the other client's account;
  - G. When subsequently updating the forms for the accounts of two clients, he failed to indicate that they had a financial interest in each other's account.
2. He engaged in discretionary trading on the accounts of eight (8) clients over a period of approximately 2 years, without the clients' written authorization and without such accounts been specifically approved and accepted in writing as discretionary accounts, contrary to the Association's Regulation 1300.4.
3. He failed to use due diligence to ensure that the trading on the accounts of eight (8) clients was appropriate for the clients and in keeping with their real investment objectives and risk tolerance, contrary to the Association's Regulation 1300.1(c) .

Penalty  
Assessed

In its decision rendered on December 6, 2004, following a penalty hearing held on October 28, 2004, the Hearing Panel assessed against Paul Joseph Paliotti permanent deregistration and fines totalling \$300,000, as detailed below:

*For count 1A :*

- A fine of \$50,000 (that is, \$10,000 per client involved);

*For counts 1B, 1C and 1D, together:*

- Permanent deregistration
- A fine of \$70,000 (that is, \$10,000 per client involved);

*For count 1E:*

- Permanent deregistration
- A fine of \$10,000

*For counts 1F and 1G, together:*

- A fine of \$10,000

*For count 2:*

- A fine of \$80,000 (that is, \$10,000 per client involved)

*For count 3:*

- A fine of \$80,000 (that is, \$10,000 per client involved)

In addition, Mr. Paliotti is required to pay the Association's costs, in the amount of \$28,501.00.

Summary of  
Facts

*Client AF*

In January 2001, Mr. Paliotti failed to execute the client's instructions to switch all of his mutual fund investments to the money market, which resulted in an approximate \$25,000 decrease in the value of the assets in the client's account. He did not inform his employer. At a meeting with the client in February 2001, he admitted his responsibility for this mistake and promised to return the client's account to its prior value, still without RBC's knowledge.

In August 2001, after receiving a letter from the client complaining that, not only had the value of his account not been returned to its prior value as promised, but it had dropped another \$30,000 in value, Mr. Paliotti, without informing his employer and without its approval, sent the client a letter confirming, in writing on RBC letterhead, that he was guaranteeing the value of the client's investments for the amount of \$227,000 on December 31, 2001.

On January 9, 2002, Mr. Paliotti sent another letter of guarantee to the client but, this time, guaranteeing the value of his account on March 9, 2002, again on RBC letterhead, without the latter's knowledge or consent. He sent another letter on January 10, 2002 and another one on April 17, 2002, each time postponing the date on which the value of the account would be guaranteed. He did not inform his employer of these events before December 2002.

Throughout the entire period during which he was trying to correct the situation in his client's account, in 2001 and 2002, the Respondent engaged in discretionary trading without obtaining the client's prior authorization before carrying out each trade and without this account being duly approved as a discretionary or managed account.

*Clients GDS, AS, MS, FPS, GPS, CS and CL*

On several occasions during the period between 2000 and 2002, Mr. Paliotti changed some clients' investment objectives and risk tolerance as stated on the Know Your Client forms, without justification or the clients' knowledge, so that they matched the type of increasingly speculative investments that he was making on their accounts, without their authorization.

In August 2001, without the knowledge of RBC, Mr. Paliotti sent letters of guarantee to clients on RBC letterhead, by which he confirmed that the original value of the investments in their accounts would be guaranteed on August 31, 2002/.

In August 2002, still without the knowledge of RBC, Mr. Paliotti sent a letter of guarantee to another client, which he backdated to August 8, 2001, confirming that he was guaranteeing the original value of the investment in his account on August 31, 2002.

After sending these letters of guarantee, Mr. Paliotti continued to engage in discretionary and unauthorized trading on these clients' accounts regardless of their real investment objectives and risk tolerances.

*Clients CL and CS*

In April 2001, following discretionary trading on a client's account by Mr. Paliotti, regardless of the appropriateness of these investments for the client, the client suffered significant losses and her account became under-margined.

To cover the losses in his client's account and to avoid apprising her of the situation, Mr. Paliotti breached his nephew's confidence by having him sign a guarantee agreement to cover the client's account, without the knowledge or consent of the client.

Mr. Paliotti then failed to update the forms for the accounts of his client and nephew to state that these clients had a financial interest in each other's account.

Mr. Paliotti failed to disclose this important information in subsequent updates of the forms for these accounts.

Mr. Paliotti has not been registered in the employ of a Member firm of the Association since his dismissal from RBC on January 9, 2003.

Kenneth A. Nason  
*Association Secretary*