

Re Karpiuk

IN THE MATTER OF:

**The Rules of the Investment Industry Regulatory Organization of
Canada**

and

Paul Michael Karpiuk

2019 IIROC 01

Investment Industry Regulatory Organization of Canada
Hearing Panel (Ontario District)

Heard: November 29, 2018

Decision: January 7, 2019

Reasons: January 7, 2019

Hearing Panel:

Deborah Ansell, Chair, Julie Badurina and Debbie Archer

Appearance:

Elissa Sinha, Enforcement Counsel

Bruce O'Toole for Paul Michael Karpiuk

Paul Michael Karpiuk (Present)

DECISION

¶ 1 On November 6, 2018, IIROC and the Respondent signed a Settlement Agreement regarding facts in respect of which the Hearing Panel could impose disciplinary sanctions on the Respondent.

¶ 2 The issue is whether the Panel should accept or reject the proposed settlement.

¶ 3 The contraventions alleged by IIROC, and admitted to by the Respondent in the Settlement Agreement, attached to this Decision to form an integral part hereof, are as follows:

(a) In September 2015, the Respondent opened an investment account for L Inc. He identified the directors of L Inc., but he did not inquire with respect to nor identify the beneficial owners or verify their identities;

(b) One of the beneficial owners was a reporting insider and subject to a regulatory investigation;

(c) The Respondent knew that the dealer with whom he was employed, CIBC World Markets Inc., had previously denied opening an investment account for one of the beneficial owners of L Inc. as a result of being subject to a regulatory investigation related to insider trading;

(d) The Respondent ignored indicators of the beneficial owner's involvement with L Inc.

¶ 4 By engaging in the conduct described above, the Respondent committed the following contraventions of IIROC's Rules:

Between August 2015 and February 2016, the Respondent failed to ascertain the beneficial owners of his corporate client when opening its account and failed to verify the identities of the beneficial owners, contrary to Dealer Member Rule 1300.1(b).

¶ 5 The agreed penalties were:

(a) Fine of \$20,000;

(b) Successfully complete the CPH examination within 90 days of this Settlement Agreement being accepted;

(c) Costs of \$2,500.00.

If the Settlement Agreement was accepted by the Hearing Panel, the Respondent agreed to pay the amounts referred to above within 30 days of such acceptance unless otherwise agreed between Staff and the Respondent.

¶ 6 The panel determined that it had to be satisfied regarding three considerations before it could accept the settlement agreement. First, the agreed penalties had to be within an acceptable range taking into account similar cases. Second, the agreed penalties had to be fair and reasonable. Third, the agreed penalties should serve as a deterrent to the respondent and to the industry, Re Donnelly 2016 IIROC 23.

¶ 7 We reviewed six precedent cases submitted by the parties and compared the agreed penalties in the settlement agreement with the types of settlements presented in those cases. We also reviewed the facts and circumstances of this particular Settlement Agreement before us. Further, we reviewed Part II of the IIROC Sanction Guidelines that sets forth the key factors to consider when determining appropriate sanctions.

¶ 8 We took note of the following mitigating factors:

(a) There was no trading in the account of L Inc. and no harm resulted from the Respondent's failure to identify the beneficial owners of L Inc.

(b) When the Respondent opened the account for L Inc., he understood that its purpose would be limited to issuing out the shares in the public company to the investors of L Inc. and that L Inc. would not be trading in its account.

(c) The Respondent did not benefit financially or otherwise from the L Inc. account. There were no trading commissions.

(d) The Respondent had not previously been the subject of IIROC disciplinary proceedings.

(e) The Respondent was not registered in the securities industry from April 12, 2016 until January 24, 2017. Since re-registering in January 2017, the Respondent has been under close supervision with no issues identified by his Dealer Member firm.

(f) By settling with IIROC, the Respondent has taken responsibility for and expressed remorse for his actions and has saved the parties the time and resources associated with conducting a full hearing on the merits.

¶ 9 We concluded that the agreed penalties were within an acceptable range based on precedents. Further, the settlement would serve as a specific and general deterrent. Finally, the settlement is fair and reasonable. Therefore, we accepted it.

Dated at Toronto, Ontario this 7 day of January 2019.

Deborah Anshell

Julie Badurina

Debbie Archer

SETTLEMENT AGREEMENT

PART I - INTRODUCTION

1. The Investment Industry Regulatory Organization of Canada (“IIROC”) will issue a Notice of Application to announce that it will hold a settlement hearing to consider whether, pursuant to Section 8215 of the Consolidated Enforcement, Examination and Approval Rules of IIROC, a hearing panel (“Hearing Panel”) should accept the settlement agreement (“Settlement Agreement”) entered into between the staff of IIROC (“Staff”) and Paul Michael Karpiuk (“Respondent”).

PART II – JOINT SETTLEMENT RECOMMENDATION

2. Staff and the Respondent jointly recommend that the Hearing Panel accept this Settlement Agreement in accordance with the terms and conditions set out below.

PART III – AGREED FACTS

3. For the purposes of this Settlement Agreement, the Respondent agrees with the facts as set out in Part III of this Settlement Agreement

Overview

4. In September 2015, the Respondent opened an investment account for L Inc. He identified the directors but he did not identify the beneficial owners or verify their identities. One of the beneficial owners was a reporting insider and subject to a regulatory investigation. The Respondent ignored indicators of the beneficial owner’s involvement with L Inc.

The Respondent

5. The Respondent, Paul Michael Karpiuk (the “Respondent”), was a registered representative with CIBC World Markets Inc. (“CIBC WM”), a Dealer Member, from 2006 to April 2016 when his employment was terminated for cause. The Respondent is currently registered with another Dealer Member.

Failure to Determine Beneficial Ownership of L Inc.

6. In September 2015, the Respondent opened an investment account for L Inc. at CIBC WM. The business of L Inc. was to loan funds to a related payday loans company that offered short-term loans to the public. The financing capital was sourced from the investors of L Inc. who received unsecured fixed rate bonds in L Inc.
7. The payday loan company was in the process of being acquired by a publicly traded company for a

purchase price of 26 million shares. Approximately six million of those shares were going to be issued directly to L Inc. who would in turn issue those shares to its investors to repay the bonds they had purchased in L Inc. L Inc. intended to deposit the shares to its account at CIBC WM with the Respondent and then transfer shares to its investors.

8. L Inc. had two directors, PH and GM, who the Respondent knew personally. GM told the Respondent that he and PH had become directors in 2013, but that the original directors were YA and another individual. YA was purported to be a wealthy financier who was publicly reported in the Spring of 2015 to be associated with a regulatory investigation for insider trading which resulted in proceedings the following year. Ultimately those proceedings were permanently stayed.
9. YA was also a reporting insider of a company unrelated to L Inc. and the regulatory investigation.
10. The Respondent knew YA and had attempted to open an account for him at CIBC WM in spring of 2015. CIBC WM denied the request because YA was associated with an ongoing regulatory investigation. The Respondent thought the decision of his firm not to open an account for YA was unfair and damaging to his efforts to build his business. He had attempted to convince CIBC WM to reconsider its decision, but CIBC WM clearly told the Respondent that it would not consider opening an account for YA until the regulatory investigation was over.
11. The Respondent prepared CIBC WM account opening forms identifying PH and GM as directors and signing authorities. He obtained the Certificate of Incorporation and Notice of Assessment for L Inc. and verified the identities of PH and GM. The account was opened for the sole purpose of receiving shares of a public company for their distribution to the bondholders of L Inc.
12. The Certificate of Incorporation identified YA as an original director of L Inc. but the Respondent did not inquire whether YA had an ongoing interest in L Inc. The Respondent did not know who the beneficial owners of L Inc. were, or make any inquiries about ownership.
13. On September 11, 2015, CIBC WM approved the account for L Inc.
14. On September 15, 2015, 6,337,067 shares of the public company were deposited to the account of L Inc. The Respondent understood that these shares were issued to L Inc., but were beneficially owned by the bondholders of L. Inc. Prior to opening the L Inc. account, the Respondent confirmed that none of the bondholders held more than a 10% interest.
15. In January and February 2016, the Respondent, on the instructions of the directors of L Inc., facilitated share transfers from L Inc. to four of its investors, which did not include YA. The Respondent thus dealt with, and permitted his firm to deal with, the assets of L Inc., without understanding who the beneficial owners of L Inc. were.
16. In February 2016, CIBC WM questioned the Respondent about the beneficial ownership of L Inc. He obtained information from L Inc. indicating that YA beneficially owned 40% of L Inc.
17. After the true beneficial ownership of L Inc. was determined, CIBC WM closed the account.
18. When he opened the account for L Inc. in September 2015, the Respondent knew that:
 - a) YA was a former director of L Inc.;
 - b) YA had been in direct communications with the public company about the acquisition of the pay-day company and its financing needs;

- c) YA and his spouse were listed as shareholders in the pay-day loan company, as were four corporations with the same address as YA and his spouse;
 - d) A regulatory investigation, relating to insider trading, was pending in which YA may have been a target ; and
 - e) CIBC WM was not prepared to open an account for YA.
19. These circumstances should have caused the Respondent to inquire about the beneficial ownership of L Inc., as he was required to do under Dealer Member Rule 1300.1(b).
20. The Respondent failed to identify YA and any other individuals who beneficially owned more than 10% of his client L Inc. Since he did not know who the beneficial owners were, he did not verify their identities. The identification of beneficial owners of corporate accounts is fundamental to the obligation to know one's client and act as a gatekeeper against improper securities trading activities. The Respondent's failure was material in that one of the beneficial owners was a reporting insider, was associated with a regulatory investigation, and CIBC WM was not prepared to maintain an account for him.

Mitigating Factors

- 21. There was no trading in the account of L Inc. and no harm resulted from the Respondent's failure to identify the beneficial owners of L Inc.
- 22. When the Respondent opened the account for L Inc., he understood that its purpose would be limited to issuing out the shares in the public company to the investors of L Inc. and that L Inc. would not be trading in its account.
- 23. Karpiuk did not benefit financially or otherwise from the L Inc. account. There were no trading commissions.
- 24. The Respondent has not previously been the subject of IIROC disciplinary proceedings.
- 25. The Respondent was not registered in the securities industry from April 12, 2016 until January 24, 2017. Since re-registering in January 2017, the Respondent has been under close supervision with no issues identified by his Dealer Member firm.
- 26. By settling with IIROC, the Respondent has taken responsibility for and expressed remorse for his actions, and has saved the parties the time and resources associated with conducting a full hearing on the merits.

PART IV – CONTRAVENTIONS

- 27. By engaging in the conduct described above, the Respondent committed the following contraventions of IIROC's Rules:

Between August 2015 and February 2016, the Respondent failed to ascertain the beneficial owners of his corporate client when opening its account and failed to verify the identities of the beneficial owners, contrary to Dealer Member Rule 1300.1(b).
- 28. The Respondent agrees to the following sanctions and costs:
 - a) Fine of \$20,000;

- b) Successfully complete the CPH examination within 90 days of this Settlement Agreement being accepted; and
 - c) Costs of \$2,500.
29. If this Settlement Agreement is accepted by the Hearing Panel, the Respondent agrees to pay the amounts referred to above within 30 days of such acceptance unless otherwise agreed between Staff and the Respondent.

PART VI – STAFF COMMITMENT

30. If the Hearing Panel accepts this Settlement Agreement, Staff will not initiate any further action against the Respondent in relation to the facts set out in Part III and the contraventions in Part IV of this Settlement Agreement, subject to the provisions of the paragraph below.
31. If the Hearing Panel accepts this Settlement Agreement and the Respondent fails to comply with any of the terms of the Settlement Agreement, Staff may bring proceedings under Rule 8200 against the Respondent. These proceedings may be based on, but are not limited to, the facts set out Part III of this Settlement Agreement.

PART VII – PROCEDURE FOR ACCEPTANCE OF SETTLEMENT

32. This Settlement Agreement is conditional on acceptance by the Hearing Panel.
33. This Settlement Agreement shall be presented to a Hearing Panel at a settlement hearing in accordance with the procedures described in Sections 8215 and 8428, in addition to any other procedures that may be agreed upon between the parties.
34. Staff and the Respondent agree that this Settlement Agreement will form all of the agreed facts that will be submitted at the settlement hearing, unless the parties agree that additional facts should be submitted at the settlement hearing. If the Respondent does not appear at the settlement hearing, Staff may disclose additional relevant facts, if requested by the Hearing Panel.
35. If the Hearing Panel accepts the Settlement Agreement, the Respondent agrees to waive all rights under the IIROC Rules and any applicable legislation to any further hearing, appeal and review.
36. If the Hearing Panel rejects the Settlement Agreement, Staff and the Respondent may enter into another settlement agreement or Staff may proceed to a disciplinary hearing based on the same or related allegations.
37. The terms of this Settlement Agreement are confidential unless and until this Settlement Agreement has been accepted by the Hearing Panel.
38. The Settlement Agreement will become available to the public upon its acceptance by the Hearing Panel and IIROC will post a full of copy of this Settlement Agreement on the IIROC website. IIROC will also publish a summary of the facts, contraventions, and the sanctions agreed upon in this Settlement Agreement.
39. If this Settlement Agreement is accepted, the Respondent agrees that neither he nor anyone on his behalf, will make a public statement inconsistent with this Settlement Agreement.
40. The Settlement Agreement is effective and binding upon the Respondent and Staff as of the date of its acceptance by the Hearing Panel.

PART VIII – EXECUTION OF SETTLEMENT AGREEMENT

- 41. This Settlement Agreement may be signed in one or more counterparts which together will constitute a binding agreement.
- 42. A fax or electronic copy of any signature will be treated as an original signature.

DATED this “6th” day of November, 2018.

“Witness”

Witness

“Paul Michael Karpiuk”

PAUL MICHAEL KARPIUK

“Kathryn Andrews”

Witness

“Elissa Sinha”

Elissa Sinha

Enforcement Counsel on behalf of Enforcement
Staff of the Investment Industry Regulatory
Organization of Canada

The Settlement Agreement is hereby accepted this “29th” day of “November”, 2018 by the following Hearing Panel:

Per: “Deborah Anshell”

Panel Chair

Per: “Julie Badurina”

Panel Member

Per: “Debbie Archer”

Panel Member

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