

INVESTMENT DEALERS ASSOCIATION

IN THE MATTER OF:

**THE BY-LAWS OF THE INVESTMENT DEALERS
ASSOCIATION OF CANADA**

AND

RAYMOND JAMES LTD.

SETTLEMENT AGREEMENT

I. INTRODUCTION

1. The Enforcement Department Staff (Staff) of the Investment Dealers Association of Canada (the Association) has conducted an investigation (the Investigation) into the conduct of Raymond James Ltd. (Raymond James or the Respondent), a member firm.
2. The Investigation discloses matters for which the Respondent may be disciplined by a hearing panel appointed pursuant to Association By-law 20 Part 10 (the Hearing Panel).

II. JOINT SETTLEMENT RECOMMENDATIONS

3. Staff and the Respondent consent and agree to the settlement of these matters by way of this settlement agreement (the Settlement Agreement) in accordance with By-laws 20.35 to 20.40, inclusive and Rule 15 of the Association Rules of Practice and Procedure.
4. The Settlement Agreement is subject to acceptance by the Hearing Panel.
5. The Settlement Agreement shall become effective and binding upon the Respondent and Staff as of the date of its acceptance by the Hearing Panel (the Effective Date).
6. The Settlement Agreement will be presented to the Hearing Panel at a hearing (the Settlement Hearing) for approval. Following the conclusion of the Settlement Hearing, the Hearing Panel may either accept or reject the Settlement Agreement.
7. If the Hearing Panel accepts the Settlement Agreement the Respondent waives its rights under the Association By-laws and any applicable legislation to a disciplinary hearing, review or appeal.
8. 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 in relation to the matters disclosed in the Investigation.
9. The Settlement Agreement will become available to the public upon its acceptance by the Hearing Panel.

10. Staff and the Respondent agree that if the Hearing Panel accepts the Settlement Agreement, they, or anyone on their behalf, will not make any public statements inconsistent with the Settlement Agreement.
11. Staff and the Respondent jointly recommend that the Hearing Panel accept the Settlement Agreement.

III. STATEMENT OF FACTS

(i) Acknowledgment

12. Staff and the Respondent agree with the facts set out in this Section III and acknowledge that the terms of the settlement contained in this Settlement Agreement are based upon those specific facts.

(ii) Factual Background

Relevant Period

13. This Settlement Agreement deals with matters which generally occurred between May 2002 and September 2003 (the Relevant Period).

The Unregistered Players

14. "B" and "C" (collectively, the Promoters) were unregistered individuals who resided in Ontario. They held themselves out as financial planners who worked for an unregistered company known as "C Ltd".
15. "D" (the Lawyer) was a Member of the Law Society of British Columbia who practiced law in downtown Vancouver as a sole practitioner as "D Law Corporation." The lawyer's membership in the Law Society of British Columbia ceased in 2004.
16. "E", (Project Manager) a British Columbia resident, was not a lawyer but worked out of the Lawyer's law office under the title "Project Manager".
17. "K" (the Accountant) was a Certified General Accountant (CGA) who worked alone in his K & Company office as a consultant for small private companies.
18. "R" (the Spouse) resided in either Alberta or the Cayman Islands and was married to "F" (the Former Alberta Registrant) a former Alberta registrant who resided in either Alberta or the Cayman Islands.
19. The Former Alberta Registrant was a colleague of the Lawyer.
20. "XYZ" (the Bahamas Company) was a corporate entity which used addresses in the Bahamas and the UK whose authorized signatories were the Project Manager and "T" (the Brother), the Lawyer's brother who resided in the UK.

The RR at Raymond James

21. During the Relevant Period, "A" was a Registered Representative (RR) at the Vancouver Head Office of Raymond James. "A" was first licensed as a RR in March 1997 and in January 1998 joined one of Raymond James' predecessor firms.
22. During the Relevant Period, "A" opened RRSP account (the Accounts) for as many as 35 clients (the "Clients").

The Private Companies

23. During the Relevant Period "A" facilitated total purchases of \$2,542,885 worth of shares of two private companies, (collectively, the Private Companies) in the Accounts.
24. The Private Companies were incorporated in British Columbia. Raymond James did not know at any material time what business enterprise the Companies were engaged in.
25. The Accountant was the sole Director and Officer of one of the Private Companies and provide bookkeeping and consulting to the other.
26. The purchase of shares in the Private Company was the primary activity in each account.
27. Unbeknown to the Respondent, "A"'s clients lost their money used to purchase shares in the Private Companies as part of an RRSP stripping scheme orchestrated by some or all of the unregistered players identified in paragraphs 14-20 in the manner described hereafter.

The RRSP Stripping Scheme (Initiated)

28. Although unbeknown to the Respondent at the material time all information available to Staff indicates that the RRSP stripping scheme was initiated as follows:
 - (a) Prospects, including the Clients, a number of which had limited investment knowledge were sought by unregistered individuals including the Promoters who represented themselves as financial planners with expertise in foreign currencies and offshore investments. The Promoters used aggressive sales pitches to many of the Clients to convince them to invest their RRSP money in one of the Private Companies which the Promoters indicated invested "off-shore in foreign currencies" and earned 2% per month.
 - (b) RRSP investors with limited investment knowledge were sought because they had available money based on the value of their RRSP investments and insufficient knowledge to determine that the Private Companies did not represent a legitimate investment opportunity.
 - (c) Because shares of the private company were promoted for purchase in a Self-Directed RRSP, the RRSP investors were instructed by the Promoters to open a Self-Directed RRSP.
 - (d) Because a number of the Clients had limited investment experience and did not have a Self-Directed RRSP, the Promoters, through various intermediaries

including the Project Manager, sought a RR at a Member firm who would accept their referrals and open RRSP accounts for the Clients. "A" was one such RR.

Contact with the RR "A"

29. The initial contact which connected "A" to the Clients was a telephone call from a prospective client to Raymond James, in or about April 2002 which was forwarded to an administrator in the Registered Plans department of Raymond James' back office (the Back Office Employee). The prospective client inquired about depositing private placement shares to a registered account. The Back Office Employee was responsible for the administrative work required for the deposit of private company shares and escrowed shares into clients' registered accounts.
30. Because he did not deal directly with clients, the Back Office Employee's supervisor told him to take the issue to the Head Office Branch Manager (the Former Branch Manager).
31. The Back Office Employee gave the Former Branch Manager what limited information he had about the private placement inquiry. The Former Branch Manager advised the Back Office Employee to give the information on the potential client to "A". At this time, the Former Branch Manager was transitioning from the Branch Manager role to that of a RR exclusively.
32. After contacting the potential client, "A" was referred to the Project Manager, through whom many of the Clients were connected to "A".
33. "A" forwarded blank New Account Application Forms (NAAFs) to the Project Manager or the Promoters with the expectation that they would meet with prospective clients and assist them with or fill out the NAAFs on their behalf. The completed NAAF was then returned to "A".
34. Although "A" spoke with some of the Clients by telephone, "A" never met with any of the Clients face to face because they all resided in other provinces. "A" was under the belief that he was registered in the Province of Ontario but in fact he was not.

The RRSP Stripping Scheme (Mechanics)

35. All information available to Staff indicates the RRSP stripping scheme operated as follows:
 - (a) Investments such as mutual funds that were held inside the Clients' RRSP were sold prior to the RRSP being transferred to Raymond James so that the Clients' Raymond James RRSP account received all cash rather than specific securities.
 - (b) The Accountant, on "K" & Company letterhead, wrote an opinion letter entitled "Certification of Private Corporation Shares" stating that shares in the Private Companies were RRSP eligible and that the fair market value of the shares was \$1.00.
 - (c) The Private Companies executed a "Corporation Certificate for Eligible Corporation" which stated that shares in the private company were RRSP

eligible. The Accountant signed this certificate on behalf of one of the Private Companies above the title "Director".

- (d) The Promoters or the Project Manager directed the clients to sign a "Qualified Investment Letter of Compliance and Indemnification." This document represented to Raymond James and the Trustee of its RRSP accounts that the client was not relying on Raymond James or its Trustee because the client understood the RRSP eligibility, liquidity, marketability and value of the Private Companies' shares and had the opportunity to obtain independent financial, investment, tax and legal advice with respect to those shares.
 - (e) Clients also executed a "Non-Brokered Private Placement Waiver" which stated that Raymond James was not acting as agent, was not conducting any due diligence, had no opinion on the tax consequences or investment merits of the offering and was not able to determine whether the investment was suitable for the client.
 - (f) The Promoters or the Project Manager directed the Clients to sign a "Share Purchase Agreement" by which each Client purchases shares in one of the Private Companies, not from the Private Company directly but, from the Spouse or the Bahamas Company.
 - (g) The Promoters or the Project Manager directed the clients to sign a "Letter of Direction," which instructed Raymond James to accept shares of the Private Company into their RRSP and deliver money in the form of a cheque payable to the Lawyer "In Trust".
36. Raymond James was aware of the documents which were delivered to it in the course of the steps described in paragraph 35 above, but Raymond James was not aware and was not told by clients that the purpose of the arrangement was to allow assets to be "stripped" from RRSP accounts.
37. Under cover letter on the letterhead of the Lawyer's law office which the Project Manager signed as "Project Manager", the Project Manager delivered the Private Company Share Certificate, the Letter of Direction, the Share Purchase Agreement, the Corporate Certificate for Eligible Corporation and the Certificate of Private Corporation Shares to "A" and asked Raymond James to deliver a cheque from the funds in the Clients' RRSP account payable to the Lawyer "In Trust" to pay for the shares.
38. Raymond James delivered funds from the Clients' RRSP accounts to the Lawyer "In Trust" after which the funds cannot be accurately traced by Staff.
39. Although unbeknown to Raymond James at the material time, the Lawyer only delivered 5% of the money to each of the Private Companies. After paying his/her own fees, the Lawyer delivered the remaining monies to the Spouse or the Bahamas Company. The funds delivered to each of the Private Companies did not represent the sale of shares to "A"'s clients. Before "A"'s clients purchased the shares for \$1.00 per share, the Private Companies gave the Spouse or the Bahamas Company an option to purchase shares of the Private Company for \$0.05 per share. Upon being notified by one of the Promoters that another client had opened an account with "A" and had cash available in their RRSP

- to purchase shares, the Spouse or the Bahamas Company exercised its option to purchase at \$0.05 and immediately sold to "A"'s client at \$1.00 making an instant 95 cent profit.
40. Unbeknown to the Respondent, sometime after the transaction had been completed, one of the Promoters contacted some of the clients to advise that a foreign currency trader had disappeared with their money.
 41. Neither of the Private Companies had issued a prospectus or an Offering Memorandum and it was apparent from the financial information provided on the NAAFs that many of the Clients did not qualify for any exemptions from the prospectus requirement of provincial securities laws.

Branch Manager Supervision

42. On or about April 15, 2002, a new Branch Manager (the Branch Manager) assumed branch managerial supervision at head office with the assistance of an Assistant Branch Manager (the Assistant Branch Manager).
43. After referring the potential client to "A", the Former Branch Manager did not take any further action to ensure that "A"'s handling of the private placement transaction was properly supervised, other than to tell "A" to talk to compliance.
44. Over a 17 month period from the beginning of May 2002 until the end of September 2003, the Assistant Branch Manager signed the NAAFs for 34 of "A"'s 35 clients to indicate Branch Manager approval for opening a new account. The NAAFs indicated the following:
 - (a) all 34 were new clients whom "A" had never met personally, although he spoke with many of the clients by telephone;
 - (b) all 34 were referred by "C" or the Project Manager;
 - (c) all 34 lived outside British Columbia, most in southern Ontario;
 - (d) all, except one, had virtually the same high risk Account Objectives and Risk Factors; 20 of 34 recorded 100% Venture Situations; 26 out of 34 recorded Venture Situations or Short Term Trading to be combined 100%; 32 of 34 recorded at least 80% Venture Situations; and
 - (e) despite the high risk profiles recorded on the NAAFs, the investment knowledge, occupation, income and net worth information on the NAAFs were indicative that many of the accountholders were average investors of modest means.

Supervisory Issues

45. Neither the Respondent nor "A" received any commissions on the transactions. Throughout the Relevant Period, the Branch Manager or the Assistant Branch Manager (collectively the Branch Managers) were unaware of the private placement transactions in the Clients' accounts. Their daily and monthly reviews were conducted by reviewing commission runs when the private placement transactions were recorded as journal entries which did not appear on any commission reports. Although the private placement

transaction appeared on the client's monthly statements, the transactions did not generate commissions. Only Buy and Sell transactions appeared on the reports used to conduct daily and monthly reviews.

46. There were insufficient supervisory reports produced at Raymond James such that supervisors could review private placement transactions such as those "A" made in the Private Companies.
47. There were insufficient supervisory reports produced at Raymond James for supervisors to review client holdings in securities which had not changed price for an extended period of time and for which there was no bid or accurate market price. Had such reports been available, supervisors might have been able to see and then review if necessary the private placement transactions such as those "A" made in the Private Companies.
48. There were insufficient procedures in place to check NCAFs to confirm whether any of the Clients who claimed "accredited investor" status qualified as "accredited investors."
49. The Branch Managers had no meaningful discussions with "A" about his business generally which might have revealed the type of business being conducted in the Clients' accounts.
50. The Branch Managers had no meaningful discussions with the Former Branch Manager regarding the prior supervision of "A" which might have revealed the type of business being conducted in the Clients' accounts.
51. Although the Raymond James *Policy and Procedures Manual* stated that RR's executing private placements for their clients must seek approval from their Branch Manager or Corporate Finance, Raymond James did not otherwise have formal written or unwritten procedures for private placement transactions. The firm relied on informal discussions between the RR, compliance and the branch manager to ensure that private placement transactions were transacted properly and in the best interests of the member firm, the client and the securities industry generally.
52. Raymond James relied on the representations and documents given by its clients. If Raymond James had more formal systems for reviewing private placements and related documents and systems for reviews of client transactions which did not generate a commission, then at some point in the Relevant Period Raymond James would likely have initiated inquiries which may well have led to an earlier end to the stripping scheme.
53. The absence of the appropriate procedures was detrimental to the public interest.

Mitigating Factors

54. Staff and the Respondent acknowledge and agree that the following factors mitigate the circumstances of this case:
 - (a) The transactions were not profit oriented because no commissions were paid on the transactions; and

- (b) The Clients decided to purchase shares in the Private Companies prior to opening their accounts at Raymond James based on representations from the unregistered individuals.

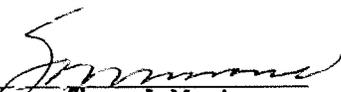
IV. CONTRAVENTIONS

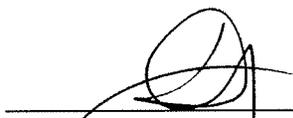
55. The Respondent admits that between May 6, 2002 and September 29, 2003, by facilitating purchases of shares of the Private Companies in the Clients' RRSP accounts without having sufficient systems and procedures in place to ensure the adequate review and supervision of private placement transactions, and by failing to ensure adequate supervision of the account opening and transactional activities of its RR "A" with respect to the Clients' Accounts, it engaged in business conduct or practice which was detrimental to the public interest, contrary to Association By-law 29.1.

VI. TERMS OF SETTLEMENT

56. The Respondent agrees to pay one hundred and fifty thousand dollars (\$150,000) as the term of settlement, attributable as follows:
- (a) a fine of one hundred and forty thousand dollars (\$140,000); and
- (b) a contribution toward the Association's investigation and prosecution costs of ten thousand dollars (\$10,000).
57. The monetary penalties and costs imposed upon the Respondents are payable immediately upon the latter of the Effective Date or December 31, 2007.

AGREED TO by the Respondents at the City of Vancouver in the Province of British Columbia, this 17th day of December, 2007.

per: 
WITNESS **Sharon J. Morrisroe**
Senior Vice President
General Counsel & Corporate Secretary
Raymond James Ltd.

per: 
RAYMOND JAMES LTD.
Lloyd A. Costley
Executive Vice President &
Chief Administrative Officer
per:  12th

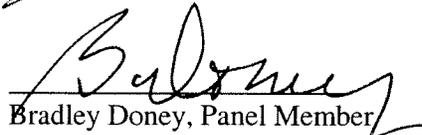
AGREED TO by Staff at the City of Vancouver in the Province of British Columbia, this 12th day of December, 2007.

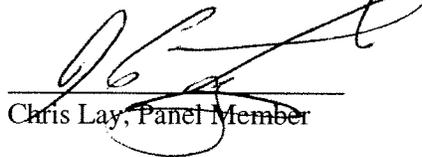

WITNESS
LAURA DI GIOVANNI
ENFORCEMENT ASSISTANT


PAUL SMITH
Enforcement Counsel on behalf of
Staff of the Investment Dealers
Association of Canada

ACCEPTED this 18 day of December, 2007, by the following Hearing Panel:

Per: 
Stephen Gill, Panel Chair

Per: 
Bradley Doney, Panel Member

Per: 
Chris Lay, Panel Member