



Canadian Foundation *for*
Advancement *of* Investor Rights
Fondation canadienne *pour* l'avancement
des droits *des* investisseurs

Appendix A

to A Report on A Decade of Financial Scandals

Review of Canadian Financial Scandals: 1999 to 2009

Prepared by the *Canadian Foundation for Advancement of Investor Rights (FAIR Canada)*¹²³

February 2011

¹ The “financial scandals” presented in the chart include circumstances of alleged fraud and/or mismanagement of investments by an individual or a firm (including, for example, “Ponzi” schemes), where a significant number of investors suffered large losses. The list described in the attached table is not intended to be exhaustive, and does not include other scandals like boiler rooms, “pump and dump” schemes, and accounting fraud. Information about registration or membership with the appropriate securities commissions and self-regulatory organization has been confirmed with the corresponding regulators. Wherever possible, a distinction has been noted between registration as an individual and registration as a firm.

² When we refer to ‘registration’, we use the term broadly to refer to individuals and firms being registered under one or more of the provincial securities acts. We recognize that, in a number of provinces, provincial securities regulators have delegated the authority to register individuals and/or firms to IIROC. They are nevertheless registrants in prescribed categories under provincial securities laws. In our study we use the term ‘registration’ to refer to all such firms or individuals, regardless of whether administrative authority has been delegated to IIROC.

³ The facts of several of the cases reviewed in our report are based on allegations. We have taken the facts as alleged as correct for the purposes of this paper.

	Name	Short Description of Fraud and Enforcement	Securities Commissions		SRO Membership		Did the firm become insolvent?	Amount Involved	Amount Recovered by Investors in Canada
			Firm Reg'd?	Indiv.(s) Reg'd?	IIROC	MFDA			
1.	Brost, Sorenson et al. Fraud	- Operated between 1999 and 2005. <u>Individuals involved</u>: Milowe Brost and Gary Sorenson, among others. <u>Investors involved</u>: 3,000 <u>Summary</u>: It is alleged that Brost and Sorenson raised funds through the sale of Arbour Energy Inc. (Arbour) securities (which at the time had effectively no business or operations and was on the verge of bankruptcy) based on false or misleading statements and moved these funds offshore to entities owned, controlled or directed by Brost, Sorenson and/or others. - Brost is also alleged to have provided unregistered advice to The Institute For Financial Learning, Group of Companies Inc. (IFFL) members with respect to a very select group of securities in companies which he and/or his colleagues owned, controlled or directed, including Arbour. - Arbour advanced significant loans to Merendon Mining Corporation Ltd. with insufficient loan documentation, inadequate security and little or no due diligence. - Investors' funds were transferred through numerous bank accounts, and then used to make "interest payments" to investors, fund the few unprofitable companies that actually had operations, and personally enrich Brost, Sorenson and others involved in the scheme. - Investors were lured by the promise of high rates of return and tax advantages associated with investments in offshore companies. - Investors were allegedly encouraged to use their	NO	NO	NO	NO	YES	Gross loss approx. \$80 – 400 million Avg. of \$33,333 to \$133,333 per investor – total of 3,000 investors Net loss \$80 – 400 million	- Little to none. - The receiver appointed in the class action informed investors in October 2009 that "the prospect of any meaningful recovery appears to be highly unlikely".

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		RRSPs to fund their investments. • Brost and Sorenson have a history of sanctions brought against them by the ASC. • <u>Securities enforcement</u> ○ On September 10, 2007, the ASC issued an Amended Notice of Hearing in respect of, among others, Brost and Arbour Energy Inc., which is currently before the Commission as it considers a decision on the merits of the allegations made by staff of the ASC. ○ The SEC has also charged Brost, Sorenson and others with perpetrating a Ponzi scheme. A default judgment was entered, ordering them to pay disgorgement of over \$210 million and a civil penalty of \$100 million. • <u>Criminal enforcement</u> ○ In the Sept. 2009, RCMP charged and arrested Brost and charged Sorenson for allegedly diverting in excess of \$100 million from thousands of investors. ○ Sorenson was arrested in Oct. 2009. ○ The criminal case is pending.							
2.	Earl Jones	• Operated between approximately 1986 and 2009. • <u>Individual involved:</u> Bertram Earl Jones • <u>Investors involved:</u> 158 • <u>Summary:</u> Jones' firm, Earl Jones Consultant and Administration Corp., handled the financial affairs of a number of clients, including family and friends, allegedly using funds from one investor to pay guaranteed minimum returns to another, as well as to finance Jones' lavish lifestyle. Many elderly investors claim that Jones convinced them to refinance their homes to free up funds	NO	NO	NO	NO	YES	Gross loss over \$50 million • Avg. of \$316,456+ per investor – total of 158 investors Net loss over \$50 million	- None. - Civil class action claim against RBC is pending.

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		to invest with him. <u>Securities enforcement</u> - The AMF cooperated with the Sûreté du Québec and sought freeze orders and cease trade orders from the BDRVM. - Class certification was approved in July 2010 for a class action against the Royal Bank of Canada, whose Montreal-area branch handled much of Jones's banking between 1981 and 2008. Victims claim that RBC provided Jones with irregular and inappropriate privileges that enabled him to carry out his scheme. <u>Criminal enforcement</u> - On Feb. 15, 2010, after pleading guilty to two fraud charges, Jones was sentenced to 11 years in prison (eligible for parole in 2 years).							
3.	Essex	- Operated between approximately 1994 and 1999. <u>Firms involved:</u> Essex Capital Management and Nelbar Financial Corporation <u>Individuals involved:</u> George Allen and Robin Moriarty <u>Investors involved:</u> 143 <u>Summary:</u> Allen sold interest-bearing deposits called Corporate Investment Certificates (CICs) through both Essex and Nelbar. The documentation was often unclear as to which entity was selling the product to a particular client. The product was not guaranteed as promised. Subsequent CIC investors' contributions funded the interest paid to, and redemptions by, earlier purchasers. - In 1999, the assets of Essex and Nelbar were frozen after it was discovered that Nelbar was	YES (OSC, Essex was reg. as an invest. dealer) NO (Nelbar)	YES (Allen and Moriarty, OSC)	YES (Essex)	NO	YES	Gross loss \$12.8 million Avg. of \$89,510 per investor – total of 143 investors Net loss \$6.4 million	\$6.4 million was paid out by the CIPF.

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		trading without appropriate registration. <u>Securities enforcement</u> - The IDA (now IIROC) fined Allen \$525,000 and Moriarty \$160,000. Allen also received a permanent ban and Moriarty received a seven-year ban. - In December 2001 a class action judgment against Nelbar, Essex, Allen and Moriarty jointly was issued in the amount of \$10.6 million plus interest. <u>Criminal enforcement</u> - In 2000 Allen and Moriarty were each charged with 30 counts of fraud over \$5,000, defrauding the public, and falsifying books and records. - A plea bargain was reached, under which charges were withdrawn against Moriarty and Allen was sentenced to four years in jail.							
4.	Farm Mutual	- Operated between approximately June 2003 and April 2007. <u>Investors involved</u>: approximately 511 <u>Summary</u>: Farm Mutual Financial Services was a suitability and regulatory compliance case. The investor class sued Farm Mutual and its directors in negligence only. - Victims in this case were clients of farm mutual insurance companies, who had ownership interests Farm Mutual Financial Services. Interestingly, the insurance companies were also investors in the debentures issues in this case, but were excluded from the class action settlement due to their ownership interests.	YES (OSC, reg'd as a mutual fund dealer and ltd market dealer)	YES	NO	YES	YES	Gross loss \$50 million Avg. of \$98,000 per investor – total of 511 investors Net loss of \$32.5 million	- Investors received approximately half of their outstanding principal investment through a settlement agreement, in the amount of \$21.2 million (net payment to the class is \$17.5 million).

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		- Farm Mutual sold more than \$50M worth of debentures issued by FactorCorp Financial, without conducting reasonable due diligence on the product, making reasonable inquiries to determine whether the product was suitable for sale to its clients, and without ensuring that clients were accredited investors. - FactorCorp declared bankruptcy, which ultimately caused Farm Mutual to declare bankruptcy in 2007. <u>Securities enforcement</u> - The MFDA terminated Farm Mutual's membership and imposed a \$2.64 million fine and \$50,000 in costs. - A class action against directors of Farm Mutual was settled; investors received compensation of approximately half of their outstanding principal investment in FactorCorp. Payments were made to qualifying claimants in October 2010. <u>Criminal enforcement</u> - None.							
5.	Fulcrum	- Operated between December 2004 and November 2005. <u>Individuals involved</u>: Troy Van Dyk and Bill Rogers <u>Investors involved</u>: 87 investors, primarily from Ontario <u>Summary</u>: Fulcrum Financial, a London-based investment advisory firm, collapsed in 2005 causing \$3.4M in investor losses. - The securities were marketed through seminars conducted for Van Dyk and Rogers by "investment guru" Jerry White who was not required to be registered.	NO	NO	NO	NO	YES	Gross loss \$3.4 million Avg. of \$39,080 per investor – total of 87 investors Net loss \$3.4 million	None

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		- o Troy Van Dyk, a former head of the firm, was charged with financial fraud in 2008 after a 2.5 year joint probe by the London police and the OPP anti-rackets squad. Van Dyk was selling charitable donation tax shelters for David Singh, formerly of Fortune Financial (which was the subject of regulatory proceedings) for the duration of the 2.5 year investigation. - o Neither Van Dyk nor his partner Bill Rogers was licensed to trade in securities; instead, they had licenses to sell insurance products from the Financial Services Commission of Ontario. • <u>Securities enforcement</u> - o In Nov. 2005 the OSC issued a temporary cease trade order and a statement of allegations. - o In Apr. 2006 the OSC extended the cease trade order until the completion of the hearing of the matter. OSC proceedings have been suspending pending completion of the criminal proceedings. • <u>Criminal enforcement</u> - o Van Dyk was arrested and charged with fraud in Mar. 2008. He was released pending a court appearance. - o Criminal proceedings are ongoing.							
6.	iForum	• November 2005. • <u>Firms involved:</u> iForum Securities Inc. and iForum Financial Services. • <u>Investors involved:</u> 1,600 • <u>Summary:</u> iForum Securities Inc. and iForum Financial	YES (iForum Securities Inc. and iForum Financial Services	YES	YES (iForum Securities Inc. was an IDA member)	YES (iForum Financial Services was an MFDA	YES (went bankrupt after being shut down by the AMF)	Gross loss \$130 million • Avg. of \$81,250 per investor – total of	None

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		Services were registered as an investment dealer and a mutual fund dealer, respectively. They were affiliated with Mount Real Corp., which was a publicly traded company that provided accounting, e-billing, management and financing services in Montreal. The AMF's investigation revealed that the officers of Mount Real had set up an elaborate ploy involving fictitious transactions. The iForum entities distributed promissory notes to investors, which were defaulted on. The company was shut down by the AMF for distributing securities without registration or a prospectus, and for misrepresenting financial products to investors. • The investigation revealed significant connections to entities in the Norshield fraud, but it appears the losses in the iForum case were separate losses. • <u>Regulatory enforcement</u> - o In November 2005, at the request of the AMF, the BDRVM issued freeze and cease trade orders against the targeted entities, related companies, and a number of their directors. - o The AMF brought 619 charges against 24 individuals who were involved in the distribution of securities for Mount Real Corporation and other affiliated corporations. The sanctions ranged from \$1,000 to \$15,000 for each offence, and totalled \$4.2 million. - o 682 charges were brought against 5 officers of the Mount Real Corporation. The sanctions sought against	were registered with the AMF; iForum Financial Services was also registered with the OSC]			member) ⁴		1,600 investors Net loss \$130 million	

⁴ The MFDA is not technically recognized as an SRO in Québec.

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		these individuals are imprisonment not exceeding 5 years less one day and fines ranging from \$500,000 to \$5 million for each offence. The total fines sought amount to \$551.5 million. The proceedings brought against the 5 officers are pending. • <u>Sanctions</u> - o As of December 2010, 18 of the 24 individuals who were involved in the distribution of the Mount Real Corporation securities have been found guilty of a total of 478 charges and fined \$2.2 million. - o As examples, Victor Lacroix and Armando Ferruci were convicted of various violations of the Securities Act and fined \$156,000 and \$288,000 respectively, which were double the minimum fines under the Securities Act.							
7.	Andrew Lech	• Operated between 1999 and April 2003⁵. • <u>Individual involved</u>: Andrew Lech • <u>Investors involved</u>: hundreds of investors from Southern Ontario and Ohio. • <u>Summary</u>: Andrew Lech promised individuals from his church community 15-20% returns, which he paid from investors' own money, ultimately defrauding them of approximately \$100 million. Lech claimed to be managing a large family fortune, and implied that he was permitting fellow worshippers to "piggyback" off his investments.	NO	NO	NO	NO	N/A	Gross loss \$100 million • Avg. of approx. \$500,000 per investor - assuming 200 investors Net loss approx. \$100 million	- Class action anticipated distribution is 0.016 cents on the dollar.

⁵ The SEC judgment stated the scheme operated between 1999 and 2003. The time period covered by the receiver was 2001 - 2003. Due to the lack of records and the lack of cooperation by Lech, it appears quite possible that the timeframe was in fact far greater.

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		• <u>Securities enforcement</u> <i>OSC</i> - o Lech was not registered with securities regulators⁶. The OSC first investigated in 2003, at which time a permanent cease trade order was issued. - o The OSC did not seek disgorgement or an administrative penalty at its hearing in 2009 given the “ongoing class action”. The OSC largely relied upon documentation from the criminal fraud conviction to make an order prohibiting Lech from trading, reprimanding him, prohibiting him from becoming or acting as director or officer of any issuer or investment fund manager, and prohibiting him from becoming or acting as a registrant. <i>Class action/civil contempt</i> - o Jan. 2004 – sentenced for civil contempt for 8 months - o Jul. 2004 – mistakenly released from custody - o Dec. 2004 – a class action award in the amount of \$60 million was made against Lech. The anticipated distribution is 0.016 cents per dollar claimed. - o Feb. 2005 – arrested on warrant issued July 15, 2004 as a result of his mistaken release - o Apr. 2006 – sentenced to 15 months for contempt of court <i>SEC</i> - o The SEC obtained default judgment against Lech in 2005, ordering him to pay disgorgement and							

⁶ Lech was briefly registered with the OSC, between April 10, 1987 and June 15, 1987, as a salesperson, and was restricted to soliciting expressions of interest from prospective clients to receive company advertising.

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		prejudgment interest of \$2,791,435 and a civil penalty of \$120,000. <u>Criminal enforcement</u> - Lech was charged with 88 counts of fraud and pleaded guilty to one count in Oct. 2007. He was sentenced to 6 six years in prison, which the judge noted was in the appropriate range because it was to be served in addition to the 40 months already served on related civil contempt charges. - Oct. 2007 – while still in custody for contempt, Lech was sentenced to 6 years in the penitentiary - Oct. 2008 – released on day parole - Sept. 2009 – day parole revoked - Jan. 2010 – became eligible to apply for full parole - May 2010 – Lech waived an application he had made for parole							
8.	Manna	- Operated between 2005 and 2007. <u>Individuals involved</u>: Hal McLeod, David Vaughan, Kenneth McMordie and Dianne Rosiek <u>Investors involved</u>: 800 seniors and unsophisticated investors in B.C. <u>Summary</u>: Manna started as a investment club. Investors were advised that their funds would be placed with experienced forex traders. They promised low risk and secure products earning 125% annual returns. Investors also earned extra money by recruiting others, and were promised that some profits would go to charity for humanitarian causes. They were also asked to sign confidentiality agreements in order to keep their	NO	NO	NO	NO	NO	Gross loss \$16 million Avg. of \$20,000 per investor – total of 800 investors Net loss \$13 – \$10.4 million	- The BCSC reports that investors received back as little as \$3 million and no more than \$5.6 million in total, despite the disgorgement order of \$16 million.

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		investments secret. <u>Securities enforcement</u> - The BCSC fined McLeod \$8M, and each of Vaughan, McMordie and Rosiek were fined \$6M for a total of \$26M in fines. - The BCSC ordered disgorgement and repayment to investors of \$16M. - McLeod, Vaughan and McMordie fled from BC. Only Rosiek is still in BC, but she claims to have no assets. - McLeod and Vaughan have a history of being disciplined by the BCSC. <u>Criminal enforcement</u> - In Oct. 2009 the RCMP's commercial crime branch was said to be "actively pursuing a criminal investigation" in the case, but no charges appear to have been laid since. The case was referred to the RCMP by the BCSC in late 2007.							
9.	Norbourg	- Operated between 2000 and 2005. <u>Individual involved:</u> Vincent Lacroix <u>Investors involved:</u> 9,200 in Quebec <u>Summary:</u> Norbourg Financial Group was a Montreal-based trust company and mutual funds dealer. - In 2005, the AMF discovered that \$115 million had been diverted by the firm's founder Vincent Lacroix for personal interests. - The AMF agreed to distribute approximately \$31 million to 925 investors with the largest losses payable out of <i>le Fonds d'indemnisation des services financiers</i> \$6.7 million was recovered by the government from	YES	YES (AMF, indiv. was reg. as a sec. adviser)	NO	NO	YES	Gross loss \$115 million Avg. of \$12,500 per investor – total of 9,200 investors Net loss approx. \$3 million	Approx. \$26 million (recovered by Ernst & Young and distributed to investors on a fund-by-fund basis.) \$31 million (paid to investors from <i>le Fonds d'indemnisation des services financiers</i>)* \$55 million (Norbourg investors filed a class action against the AMF, KPMG LLP, Concentra

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		Lacroix in taxes and interest over 3 years. • <u>Securities enforcement</u> - o In August 2005, the BDRVM issued freeze and cease trade orders against Norbourg Gestion d'actifs inc. - o Lacroix was charged under the Quebec <i>Securities Act</i> in 2006, and received a 12-year sentence (for all 51 charges under Quebec securities legislation) and a \$250,000 fine. On appeal, his sentence was reduced to 8.5 years, and in Sept. 2009, his sentence was further reduced to 5 years minus 1 day. He was brought back on nearly 200 further charges in late 2009 and sentenced to 13 years, said to be Canada's longest sentence for white-collar crime to date. He was released on probation after serving 18 months of this 13-year sentence. • <u>Criminal enforcement</u> - o A mistrial was declared in the trial of five other individuals accused of more than 700 charges of fraud, conspiracy and falsifying documents when the jury could not reach a unanimous decision.							Trust, The Northern Trust Company Canada and Rémi Deschambault. The parties have reached an agreement in principle to settle this matter.) <u>Note:</u> *Approximately 10% (925 out of 9,200) investors qualified for compensation under <i>le Fonds d'indemnisation des services financiers</i>. *In Nov. 2010 a Quebec court ordered the AMF to compensate another 138 victims. The <i>Fonds</i> is a Quebec indemnity fund managed by the AMF. It covers investor losses resulting from financial fraud committed in the course of the distribution of financial products and services. AMF initially disallowed the other claims because the majority of them resulted from fraud "in connection with management of mutual funds" and not "the distribution of financial products and services". The

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									maximum payout allowed from the fund was \$200,000 per claim.
10.	Norshield	- Operated between at least 2004 (likely earlier) and June 2005. <i>Individuals involved:</i> Norshield principals, including its founder, John Xanthoudakis, Dale Smith and Peter Kefalas. <i>Investors involved:</i> Close to 2,000. <i>Summary:</i> Norshield was a Montreal-based manager and advisor to a number of hedge funds offered by Olympus Funds and Mosaic. Norshield managers had allegedly inflated the value of assets and diverted more than \$215M to entities connected to founder John Xanthoudakis. As time went on, Norshield did not have enough money to meet redemptions because existing assets had been overvalued or were illiquid. By 2005, the company was using nearly all new subscriptions to pay for redemptions. - In June 2005, Norshield filed for receivership (RSM Richter) at the request of both the OSC and the AMF. The receiver concluded that the funds' assets were grossly overvalued and it would not be able to meet its redemption obligations. - Norshield attributed its liquidity problems to market fluctuations and a 5-year scandal involving Norshield as a money manager in Cinar's tax fraud case. - It was estimated that over \$130M of Norshield	YES (OSC, AMF, reg. as an invest. counsel and portf. mgr. in Ont. and as an adv. with unrest. practice in Que.)	YES	NO	NO	YES	Gross loss \$159 million Avg. of approx. \$79,500 per investor – assuming 2,000 investors Estimated net loss \$149 - 145 million	- Case still pending. It was estimated by RSM Richter in March 2007 that only 6-9 cents on the dollar would be recovered on behalf of investors.

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		assets were sent to offshore to businesses. • <u>Securities enforcement</u> - o An OSC panel imposed prohibitions on participation in capital markets on Xanthoudakis and Smith; fined them each \$2.1 million in administrative penalties; and imposed joint costs of \$295,000. • <u>Criminal enforcement</u> - o In March 2010, the AMF issued 140 charges against 11 representatives, seeking \$976,000 in fines.							
11.	Portus	• Operated between approximately January 2003 and August 2005. • <u>Individuals involved</u>: Michael Mendelson and Boaz Manor (Michael Mendelson adopted the moniker Mikael Meir following his release from jail and now acts as a business operations consultant) • <u>Investors involved</u>: over 26,000 • <u>Summary</u>: Portus Alternative Asset Management misled investors as to the nature of the investment of their money, did not disclose fees taken, and used the principal invested by clients to satisfy redemption requests of others. Manor obstructed the investigation into Portus by directing the destruction of documents and directing employees not to discuss matters with OSC staff. • Portus was alleged to have been compliance-deficient, to	YES (all provinces except Qubec, reg. as invest. counsel/p ort. mgr. and limited mkt. dealer.) ⁷	YES	NO	NO	YES (in receivership after the OSC inquiry)	Gross loss \$793.9 million • Avg. of approx. \$30,511 per investor – assuming 26,000 investors Net loss \$26.5 million	▪ \$755.4 million by KPMG as receiver (95.14% of losses) plus \$12 million (in recovered fees) <u>Note</u> : \$611.9 million of the recovery by KPMG was by way of settlement with Société Générale MFDA- and IDA-regulated dealers in Ontario repaid \$12 million in collected fees for referring clients to Portus.

⁷ FAIR Canada understands from discussions with senior IIROC staff that most ICPMs use IIROC-member firms as custodians. The practice does, however, vary across firms.

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		have misled investors and OSC staff, and to have breached Ontario securities law and engaged in conduct contrary to the public interest. - o The company went into receivership (KPMG) in March 2005, shortly after the OSC inquired into the fund's transactions. - o Its collapse was attributed to the misappropriation of investor funds - the funds were used to finance the Portus Group and for the personal use of Portus' principals, Mendelson and Manor. • When the scandal came to light, Manor fled to Israel and was alleged to have brought diamonds with him that were of substantial value. • <u>Securities/civil enforcement</u> - o Portus products were distributed through IDA and MFDA regulated firms. In May 2006, Ontario-resident MFDA and IDA (now IIROC) members were asked to repay \$12 million in fees they had received out of funds invested in Portus. Manulife was fined by MFDA for failure to disclose its fee arrangements with Portus (\$200,000 plus \$50,000 costs). - o In March 2007, Manulife Securities (who referred its clients to Portus) initiated a class action on behalf of Portus investors against Société Générale, and, in Dec. 2008, reached a settlement under which \$611.9M was recovered for distribution to Portus investors. - o The total recovered and allocated by KPMG, including the settlement with Société Générale, (excluding the \$12 million recovered from SRO members) was equal to 95.1435% of losses. - o The OSC's proceedings were suspending pending the							

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		criminal hearing. - o In July 2008 KPMG (in its capacity as receiver) also secured default judgment against Manor in excess of \$100,000; Manor took the position that he couldn't pay anything and subsequently filed for bankruptcy. • <u>Criminal enforcement</u> - o In exchange for Mendelson's guilty plea, through which he provided assistance in the case against Manor, Mendelson received a two- year penitentiary sentence and 3 years' probation. He was released in May 2008. - o Manor fled to Israel, but returned to Canada to face charges of fraud in November 2007. Manor pled guilty in Nov. 2010 to a number of criminal charges relating to Portus and is currently awaiting sentencing.							
12.	Weizhen Tang	• Operated between January 2006 and March 2009. • <u>Individual involved:</u> Weizhen Tang • <u>Investors involved:</u> 200 • <u>Summary:</u> Tang's firms, Weizhen Tang Corp. & Overseas Chinese Fund Ltd. Partnership, offered investment services, mostly to the Chinese Canadian community in Toronto, without proper registration. - o Tang is accused of running a Ponzi scheme that defrauded his 200 clients of over \$60M. - o Tang referred to himself as "the Chinese Warren Buffett" and "the Chinese Donald Trump", but was later branded "the Chinese Bernard Madoff". • Weizhen Tang Corporation continues to advertise Tang as the "King of 1% Weekly Returns"	YES (Weizhen Tang Corp. was reg'd as a limited market dealer)	YES (reg'd as a dealer)	NO	NO	YES	Gross loss \$60 million • Avg. of \$300,000 per investor – total of 200 investors Net loss \$60 million	- None. - Both the OSC hearing and the criminal proceedings are pending.

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		<u>Securities enforcement</u> - The OSC has issued a temporary order prohibiting Tang and his companies from trading pending a hearing scheduled for March 30, 2011. Although the OSC charged Tang prior to the Crown's criminal charges, the OSC proceedings have been suspended pending the criminal hearing. - The AMF also issued temporary freeze trade orders and provided the OSC with assistance. - An order was entered against Tang and several of his businesses by the U.S. Securities and Exchange Commission in 2009, which froze his assets there and appointed a receiver to take control of them. <u>Criminal enforcement</u> - Tang was arrested and jailed in January 2010 and released on bail in April 2010. He has been charged with fraud over \$5,000. A preliminary hearing is scheduled for Feb. 14, 2011.							
13.	Ian Thow	- Operated between January 2003 and May 2005. <u>Individual involved</u>: Ian Thow, former vice-president of Victoria-based office of Berkshire Investment Group, once part of AIC Ltd., which was taken over by Manulife Financial Corp. in 2009. <u>Investors involved</u>: Dozens of investors in BC and AB. <u>Summary</u>: Ian Thow was accused of defrauding investors of over \$32 million, which he used to finance his expensive lifestyle and make payments to other investors. Most of the money he took was for investments that did not exist. A number of the	YES (Berkshire was registered nationally)	YES (BCSC, Thow was reg. as a mutual fund salesperson)	NO	YES (Berkshire)	NO	Gross loss \$32 million Avg. of approx. \$1.3 million per investor - assuming 24 investors Net loss \$27.9 million	- Berkshire paid a total settlement of \$4.1 million to 29 former clients. - Thow agreed to pay \$4 million in restitution in the criminal hearing, although he is currently incarcerated and bankrupt.

	Name	Short Description of Fraud and Enforcement	Securities Commissions		SRO Membership		Did the firm become insolvent?	Amount Involved	Amount Recovered by Investors in Canada
			Firm Reg'd?	Indiv.(s) Reg'd?	IIROC	MFDA			
		defrauded investors were elderly and most investors had been encouraged to either borrow or sell mutual funds (or both) to raise funds to invest in what was promised to be a secure, high-yield investment. For most clients, Thow provided no documentation to evidence their investments. • Thow also claimed to have close ties to Michael Lee-Chin, the principal of Berkshire. - o Thow fled to the U.S. after the BCSC started investigating him for fraud. He was arrested in 2009 in Portland, Ore. and extradited to Canada in March 2009. • <u>Securities enforcement</u> - o Thow was initially fined \$6 million by the BCSC, but this was reduced to \$250,000 on appeal at the B.C. Court of Appeal. The fine was included as a liability in his subsequent bankruptcy. - o Through a settlement with the MFDA, Berkshire paid a \$500,000 fine and \$50,000 in costs for failure to conduct reasonable supervisory investigations of Thow. • <u>Criminal enforcement</u> - o 25 charges were laid in 2008 by the RCMP. - o Thow plead guilty to 20 counts of fraud in March 2010, and was given a 9-year prison sentence which was 2 years longer than recommended in the joint sentence submission. Thow also agreed to pay \$4 million of restitution to his victims. - o Thow unsuccessfully appealed this sentence in							

	Name	Short Description of Fraud and Enforcement	Securities Commissions		SRO Membership		Did the firm become insolvent?	Amount Involved	Amount Recovered by Investors in Canada
			Firm Reg'd?	Indiv.(s) Reg'd?	IIROC	MFDA			
		November 2010.							
14.	Triglobal	- Operated between 1997 and 2007. <u>Individuals involved</u>: Company executives Themistoklis Papadopoulos and Mario Bright have been missing since December 2007. <u>Investors involved</u>: 250 <u>Summary</u>: Triglobal was a Montreal-based mutual funds dealer. A few advisors close to the principal of Triglobal sold investments in offshore entities to retail investors without proper registration or a prospectus being filed. Funds in these entities were misappropriated by the principals of Triglobal who were apparently operating a Ponzi scheme. Under the scheme investors were offered unauthorized tax shelters and unregistered offshore investments. - Triglobal was deemed de facto bankrupt and a receiver was appointed. - Most of the advisors and clients were transferred to another dealer. - In August 2009, the media reported that Papadopoulos now lives in Greece and works as a consultant with Global Electric Company. Bright is also believed to have fled Canada. <u>Securities enforcement</u> - An investigation is ongoing by the AMF. The freeze trade order originally issued by the AMF in 2007 was extended by the BDRVM and is still in force. <u>Criminal enforcement</u> - The RCMP confirmed in late 2008 that IMET is	YES (OSC, AMF; firm was reg. as a mutual funds dealer)	NO	NO	YES	YES	Gross loss \$86.3 million Avg. of \$345,200 per investor – total of 250 investors Net loss \$86.3 million	- Investigation by both the AMF and the RCMP is ongoing. - Some individual investors were successful in civil actions against Papadopoulos (e.g., one investor successfully sued for \$14.3M). However, since Papadopoulos has left Canada, enforcement and recovery could prove difficult.

	Name	Short Description of Fraud and Enforcement	Securities Commissions		SRO Membership		Did the firm become insolvent?	Amount Involved	Amount Recovered by Investors in Canada
			Firm Reg'd?	Indiv.(s) Reg'd?	IIROC	MFDA			
		investigating.							
15.	Vantage	1998 <i>Investors involved:</i> 3,400 <i>Summary:</i> Vantage Securities Inc., a Vancouver-based mutual fund broker and a dealer, had serious capital deficiencies as a result of corporate and financial mismanagement, ultimately culminating in the resignations of the entire management team. - A receiver was appointed in 1998 and discovered an \$1.8M shortfall. - Today, a company conducting the same business of Vantage would be required to be a member of IIROC or the MFDA. <i>Securities enforcement</i> - None. <i>Criminal enforcement</i> - None.	YES (BCSC, firm was reg. as a sec. dealer)	YES	NO	NO	YES	\$1.8 million Avg. of \$529 per investor – total of 3,400 investors Net loss \$0	Full recovery of losses was approved by the BC Supreme Court and paid from the B.C. contingency fund (now CIPF) and a surety bond held by the firm. Investors received 100% of assets identified in the books and records of Vantage as being legally and/or beneficially owned by that investor. The British Columbia Supreme Court further determined that non-B.C. residents were entitled to advance claims against the contingency fund, as the fund did not have a residency restriction.