

INVESTMENT INDUSTRY REGULATORY ORGANIZATION OF CANADA

IN THE MATTER OF:

**THE DEALER MEMBER RULES OF THE
INVESTMENT INDUSTRY REGULATORY ORGANIZATION OF CANADA**

AND

**THE BY-LAWS OF THE
INVESTMENT DEALERS ASSOCIATION OF CANADA (IDA)**

AND

SAMMY SHIEH LUNG PAN

NOTICE OF HEARING

TAKE NOTICE that pursuant to Part 10 of Dealer Member Rule 20 and Section 1.9 of Schedule C.1 to Transition Rule No.1 of the Investment Industry Regulatory Organization of Canada (“IIROC”), a hearing will be held before a hearing panel (“Hearing Panel”) of IIROC on Wednesday February 29, 2012, at Reportex Agencies Ltd., 925 West Georgia Street, Suite 1010, Vancouver, British Columbia, at 10:00 a.m.

TAKE FURTHER NOTICE that pursuant to Rule 6.2 of IIROC’s Dealer Member Rules of Practice, that the hearing shall be designated on the:

- The Standard Track
- The Complex Track

TAKE FURTHER NOTICE that on June 1, 2008, IIROC consolidated the regulatory and enforcement functions of the Investment Dealers Association of Canada (“IDA”) and Market Regulation Services Inc. Pursuant to the *Administrative and Regulatory Services Agreement* between the IDA and IIROC, effective June 1, 2008, the IDA has retained IIROC to provide services necessary for the IDA to carry out its regulatory functions.

THE PURPOSE OF THE HEARING is to determine whether Sammy Shieh Lung Pan (the “Respondent”) has committed the following contraventions that are alleged by IIROC:

Count 1

Between October 2007 and November 2008 the Respondent engaged in personal financial dealings with a client contrary to IDA By-law 29.1 and IIROC Dealer Member Rule 29.1 in that, on as many as nine occasions, he loaned money, totaling as much as \$761,000, to the client without the consent of his firm.

Count 2

Between April 2008 and June 2009 the Respondent failed to make diligent inquiries regarding the source or destination of funds being deposited to, or withdrawn from a client’s account contrary to IDA Regulation 1300.1 (a) and IIROC Dealer Member Rule 1300.1 (a).

Count 3

In August 2008 the Respondent made a misrepresentation to his firm’s compliance staff contrary to IIROC Dealer Member Rule 29.1 about the source of funds deposited to a client’s account, to conceal the fact that he had personally purchased and deposited a bank draft to the client’s account.

Count 4

In July 2009 the Respondent made a misrepresentation to his firm’s compliance staff contrary to IIROC Dealer Member Rule 29.1 when he responded to their questions about the source of funds deposited to a client’s account with a statement that concealed the fact that he, himself, was one of the sources funding the client’s account.

PARTICULARS

TAKE FURTHER NOTICE that the following is a summary of the facts alleged and to be relied upon by Staff at the hearing:

Overview

1. From October 2007 through October 2008 while he was a Registered Representative (“RR”) at PI Financial Corp. (“PI”) in Vancouver, the Respondent loaned one of his clients a total of \$761,000 in 9 different advances to fund trading in the client’s account and for other purposes. The loans were made during a time when there were frequent deposits and withdrawals in the client’s account totaling hundreds of thousands of dollars each month, yet the Respondent failed to make reasonable inquiries to determine the source of deposits or the reason for the withdrawals. The RR failed to advise his compliance staff that he had loaned any money to his client, and when they made inquiries regarding the source of the client’s deposits, the Respondent made repeated misrepresentations which hid the fact that he himself was one of the sources.

2. These Particulars relate to the period of time from approximately October 2007 until August 2009 (the “Relevant Period”).

The Respondent and his client STL / RC

3. The Respondent was first registered as an RR in 1998 and spent almost his entire career at PI in Vancouver.
4. STL, was a corporate entity with an investment account (the “STL Account”) at PI. The Respondent was the RR responsible for the STL Account.
5. STL’s principal and sole beneficial owner was RC. STL and RC had accounts with the Respondent for approximately seven years prior to the Relevant Period.
6. During the Relevant Period STL was the Respondent’s largest client in terms of commissions generated. From 2007 until August 2009, the STL Account generated approximately \$350,000 in U.S. dollar gross commissions and \$100,000 in Canadian dollar gross commissions.
7. The New Client Application Form (“NCAF”) for the STL Account dated September 20, 2007 indicated:
 - STL was in the business of cell phone sales;
 - STL’s objectives and risk tolerance for the account was 100% Short term trading and 100% High Risk;
 - STL’s liquid assets were approximately \$800,000;
 - STL’s fixed assets were \$250,000;
 - STL’s annual income was approximately \$1,500,000;
8. The NCAF for RC’s personal account indicated:
 - RC’s liquid assets were approximately \$250,000;
 - RC’s fixed assets were approximately \$850,000;
 - RC’s annual income was approximately \$120,000.
9. The NCAF for RC’s spouse indicated:
 - her liquid assets were approximately \$30,000;
 - her fixed assets were approximately \$300,000;
 - her annual income was approximately \$45,000.
10. The trading activity in the STL Account was generally unsolicited and consisted of aggressive and active short-term trading which utilized margin.

Before the first loan

11. During the 90 day period before the Respondent first loaned money to RC the following amounts were withdrawn or deposited to the STL Account:

Date	Other STL Deposit	Other STL Withdrawal
July 27, 2007	\$40,000	
July 31, 2007	\$50,000	
Aug. 8, 2007	\$50,000	
Aug. 10, 2007		\$40,000
Aug. 17, 2007	\$45,000	
Aug. 22, 2007	\$50,000	
Aug. 23, 2007		\$20,000
Aug. 30, 2007		\$20,000
Sept. 11, 2007		\$50,000
Oct. 17, 2007	\$15,000	
Oct. 24, 2007	\$20,000	

12. On October 22, 2007 PI's compliance staff notified the Respondent that the STL Account was overly concentrated in one security and exposed to margin. That same day, the Respondent updated the "Comments" section of the NCAF for the STL Account to reord the client's re-confirmation that high risk trading was the objective of the account.
13. On October 24, 2007 PI's Compliance Senior Vice President (the "Compliance SVP") wrote STL and advised that its 20,000 common shares of Merrill Lynch & Co. Inc. which had a market value of approximately \$1,337,000 against which \$860,000 was borrowed on margin constituted almost the entire market value of the STL Account.
14. The Compliance SVP discussed the subject matter of the letter with the Respondent before it was sent and the Respondent was copied on the letter. STL was required to sign the letter to acknowledge receipt and to confirm the appropriateness of the activity and holdings in the STL Account.

The loans, deposits and withdrawals

15. In the next 40 days the Respondent made the following loans to RC which were deposited to the STL Account around the same time that the following additional amounts were deposited to or withdrawn from the STL Account:

Date	Loaned	Paid Back	Cumulative Loan	Loan Deposited to STL Account	Other STL Deposit	Other STL Withdrawal
Oct 25 / 07	\$25,000		\$25,000	Yes	\$20,000	
Oct 30 / 07						\$100,000
Nov 1 / 07					\$30,000	
Nov 2 / 07	\$100,000		\$125,000	Yes		
Nov 8 / 07					\$20,000	
Nov 16 / 07						\$20,000
Nov 19 / 07					\$38,000	
Nov 20 / 07					\$10,000	
Dec 3 / 07						\$50,000

16. On April 1, 2008 RC owed the Respondent \$125,000 from a loan that had been outstanding for five months.
17. In April 2008 the following amounts of money were withdrawn or deposited to the STL Account:

Date	Other STL Deposit	Other STL Withdrawal
Apr. 4, 2008	\$130,000	
Apr. 7, 2008	\$50,000	
Apr. 9, 2008		\$50,000
Apr. 17, 2008	\$120,000	
Apr. 18, 2008	\$100,000	
Apr. 30, 2008	\$200,000	

18. At least part of the money deposited was to make up for an approximately \$190,000 margin call on April 18, 2008.
19. In the following months the Respondent made the following loans to RC which were deposited to the STL Account around the same time that the following additional amounts were deposited to or withdrawn from the STL Account:

Date	Loaned	Paid Back	Cumulative Loan	Loan Deposited to STL Account	Other STL Deposit	Other STL Withdrawal
May 2 / 08	\$50,000		\$175,000	Yes		
May 5 / 08					\$200,000	\$30,000

May 22 / 08						\$150,000
May 23 / 08		\$50,300	\$124,700			
Jun 6 / 08					\$86,000	
Jun 9 / 08						\$103,000
Jun 17 / 08						\$225,000
Jun 19 / 08						\$240,000
Jun 27 / 08	\$50,000		\$174,700	Yes	\$80,000	
Jul 3 / 08						\$30,000
Jul 10 / 08						\$220,000
Jul 15 / 08					\$150,000	
Jul 16 / 08					\$350,000	
Jul 17 / 08						\$480,000
Jul 31 / 08					\$150,000	
Aug 1 / 08		\$8,334	\$166,366			
Aug 11 / 08					\$150,000 ¹	
Aug 12 / 08	\$80,000		\$246,366	Yes		
Sep 2 / 08		\$8,334	\$238,032		\$30,000	
Sep 5 / 08					\$100,000	
Sep 10 / 08					\$120,000	
Sep 11 / 08						\$100,000
Sep 16 / 08						\$100,000
Sep 18 / 08					\$90,000	
Sep 22 / 08						\$560,000
Sep 25 / 08					\$40,000	
Sep 26 / 08					\$95,000	
Sep 30 / 08					\$490,000	
Oct 3 / 08					\$120,000	
Oct 6 / 08		\$8,334	\$229,698			
Oct 8 / 08	\$50,000		\$279,698	Yes	\$100,000	
Oct 10 / 08	\$200,000		\$479,698	Yes		
Oct 15 / 08	\$140,000		\$619,698	No		\$100,000
Oct 16 / 08		\$140,000 - \$140,000 ²	\$619,698			
Oct 23 / 08					\$40,000	
Oct 27 / 08					\$40,000	
Oct 31 / 08						\$150,000
Nov 3 / 08		\$8,334	\$611,364			
Nov 6 / 08		\$200,000	\$411,364			\$100,000
Nov 10 / 08					\$10,000	
Nov 12 / 08					\$110,000	
Nov 13 / 08	\$66,000		\$477,364	Yes		\$10,000
Total	\$761,000³	\$283,636	\$477,364		\$2,551,000	\$2,598,000

¹ The Respondent knew this deposit was a third party cheque and a loan from another acquaintance of RC.

² RC issued a cheque to the Respondent but before the Respondent could cash the cheque a stop payment was issued on the cheque so that it could not be cashed.

³ Total loans include \$125,000 from previous chart from Oct and Nov 2007.

20. The Respondent knew that the money he loaned RC was used to fund the STL Account.
21. The Respondent knew that the trading in the STL Account was unreasonable (or in the Respondent's own word "crazy") but continued to accept all of RC's orders in the hope that it would generate trading profits (or in the Respondent's own words "big bucks") so that RC would be able to pay back the loans.
22. Despite the frequency and size of deposit and withdrawal transactions when the client owed significant amounts of money to the Respondent and continued to borrow more money from the Respondent, the Respondent failed to make reasonable inquiries to determine:
 - (i) Where the monies deposited to the STL Account were coming from;
 - (ii) Where the monies withdrawn from the STL Account were going to;
 - (iii) Why the money withdrawn from the STL Account was not being used to pay back the Respondent;

Hiding the loans from PI

23. The Respondent did not get PI's permission to loan RC any money and did not tell PI that he had done so.
24. By August 2008, PI was inquiring about the sources of monies coming into the STL Account.
25. On August 13, 2008 the Respondent misrepresented to PI's compliance staff by email that an \$80,000 bank draft was arranged by RC through RC's bank and simply picked up by the Respondent because RC was on vacation in Europe, when in fact the Respondent purchased the bank draft and deposited it to the STL Account.
26. In November 2008, the STL Account incurred losses of roughly \$1 million USD within a few weeks. \$215,000 was then deposited to the account over an eight day period. On December 4, 2008 the Respondent's branch manager, directly asked the Respondent about the source of funds in the STL Account, but the Respondent told him nothing about the loans he had made to RC.
27. On July 14, 2009 a Director of PI and the Compliance SVP separately asked the Respondent whether RC was borrowing money to fund trading in the STL Account. The Respondent misrepresented to them that RC was relying on family money.
28. On July 16, 2009 the Respondent was copied on a risk acknowledgment letter from PI to STL and RC that STL was asked to endorse to confirm that the STL Account was not

being funded with borrowed money. RC endorsed this letter on behalf of STL and returned it to PI and the Respondent. The Respondent did nothing to correct the misrepresentation RC and STL made to PI, even though he knew that he, himself had loaned RC over \$700,000 to fund the account.

29. In August 2009 PI restricted the STL Account. The Respondent resigned from PI shortly thereafter in October 2009 and has not since worked in the securities industry in any capacity.
30. On January 14, 2010 and subsequently on January 20, 2010, the Respondent was interviewed by investigators with the British Columbia Securities Commission (the "Commission") in relation to his dealings with STL and RC who were subjects of a Commission investigation.
31. PI did not become aware of the loans the Respondent made to RC until January 21, 2010 when the Compliance SVP was informed by a Commission investigator that the Respondent had admitted to making the loans when he was interviewed by Commission investigators.
32. On January 22, 2010, the Compliance SVP spoke with the Respondent by telephone. In that telephone conversation the Respondent told the Compliance SVP that:
 - (i) there were 2 – 3 loans totaling in excess of \$300,000;
 - (ii) that he felt terrible that he did not tell anyone at PI about the loans; and
 - (iii) that he did not receive all of the principal back from RC.
33. On January 25, 2010, the Compliance SVP met with the Respondent face to face. At this meeting the Respondent told the Compliance SVP that the total loans made to the Respondent were close to \$750,000, of which approximately \$500,000 had not been paid back.

GENERAL PROCEDURAL MATTERS

TAKE FURTHER NOTICE that the hearing and related proceedings shall be subject to IIROC's Rules of Practice and Procedure.

TAKE FURTHER NOTICE that pursuant to Rule 13.1, the Respondent is entitled to attend and be heard, be represented by counsel or an agent, call, examine and cross-examine witnesses, and make submissions to the Hearing Panel at the hearing.

RESPONSE TO NOTICE OF HEARING

TAKE FURTHER NOTICE that the Respondent(s) must serve upon IIROC and Staff a Response to the Notice of Hearing in accordance with Rule 7 within twenty (20) days (for a Standard Track disciplinary proceeding) or within thirty (30) days (for a Complex Track disciplinary proceeding) from the effective date of service of the Notice of Hearing.

FAILURE TO RESPOND OR ATTEND HEARING

TAKE FURTHER NOTICE that if the Respondent(s) fails to serve a Response or attend the hearing, the Hearing Panel may, pursuant to Rules 7.2 and 13.5:

- (a) proceed with the hearing as set out in the Notice of Hearing, without further notice to the Respondent(s);
- (b) accept as proven the facts and contraventions alleged by Staff in the Notice of Hearing; and
- (c) order penalties and costs against the Respondent(s) pursuant to By-law 20.33, 20.34 and 20.49.

PENALTIES & COSTS

TAKE FURTHER NOTICE that if the Hearing Panel concludes that the Respondent(s) did commit any or all of the contraventions alleged by Staff in the Notice of Hearing, the Hearing Panel may, pursuant to IIROC Dealer Member Rules 20.33 and 20.34, impose any one or more of the following penalties:

Where the Respondent(s) is/was an Approved Person:

- (a) a reprimand;
- (b) a fine not exceeding the greater of:
 - (i) \$1,000,000 per contravention; and
 - (ii) an amount equal to three times the profit made or loss avoided by such Approved Person by reason of the contravention.
- (c) suspension of approval for any period of time and upon any conditions or terms;
- (d) terms and conditions of continued approval;
- (e) prohibition of approval in any capacity for any period of time;
- (f) termination of the rights and privileges of approval;
- (g) revocation of approval;
- (h) a permanent bar from approval with IIROC; or

- (i) any other fit remedy or penalty.

Where the Respondent is/was a Member firm:

- (a) a reprimand;
- (b) a fine not exceeding the greater of:
 - (i) \$5,000,000 per contravention; and
 - (ii) an amount equal to three times the profit made or loss avoided by the Member by reason of the contravention;
- (c) suspension of the rights and privileges of the Member (and such suspension may include a direction to the Member to cease dealing with the public) for any period of time and upon any conditions or terms;
- (d) terms and conditions of continued Membership;
- (e) termination of the rights and privileges of Membership;
- (f) expulsion of the Member from membership in IIROC; or
- (g) any other fit remedy or penalty.

TAKE FURTHER NOTICE that if the Hearing Panel concludes that the Respondent did commit any or all of the contraventions alleged by Staff in the Notice of Hearing, the Hearing Panel may pursuant to IIROC Dealer Member Rule 20.49 assess and order any investigation and prosecution costs determined to be appropriate and reasonable in the circumstances.

DATED at Vancouver, this 9th day of February, 2012.

“Warren Funt”
Warren Funt
Vice-President, Western Canada

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