

# INVESTMENT INDUSTRY REGULATORY ORGANIZATION OF CANADA

IN THE MATTER OF:

THE RULES OF THE INVESTMENT INDUSTRY REGULATORY  
ORGANIZATION OF CANADA (IIROC)

AND

GABRIEL KA LEUNG LEE

## SETTLEMENT AGREEMENT

### I. INTRODUCTION

1. IIROC Enforcement Staff and Gabriel Ka Leung Lee (“the Respondent”), consent and agree to the settlement of this matter by way of this settlement agreement (“the Settlement Agreement”).
2. The Enforcement Department of IIROC has conducted an investigation (“the Investigation”) into the conduct of the Respondent.
3. On June 1, 2008, IIROC consolidated the regulatory and enforcement functions of the Investment Dealers Association of Canada and Market Regulation Services Inc. Pursuant to the Administrative and Regulatory Services Agreement between IDA and IIROC, effective June 1, 2008, the IDA has retained IIROC to provide services for IDA to carry out its regulatory functions.
4. The Respondent consents to be subject to the jurisdiction of IIROC.
5. The Investigation discloses matters for which the Respondent may be disciplined by a hearing panel appointed pursuant to IIROC Transitional Rule No.1, Schedule C.1, Part C (“the Hearing Panel”).

**II. JOINT SETTLEMENT RECOMMENDATION**

6. Staff and the Respondent jointly recommend that the Hearing Panel accept this Settlement Agreement.
7. The Respondent admits to the following contraventions of IIROC Rules, Guidelines, IDA By-Laws, Regulations or Policies:
  - a) Between June 2008 and September 2011, the Respondent engaged in outside business activities by facilitating off-book investments and/or loans between eight clients and Asia Active Resources, without the knowledge of his firm and without proper exemptions under the *Securities Act (Alberta)*, contrary to Dealer Member Rule 29.1;
  - b) In 2009, the Respondent engaged in outside business activities by facilitating off-book investments by three clients in Castle Rock Research Corporation, without the knowledge of his firm, contrary to Dealer Member Rule 29.1;
  - c) In or about February 2011, the Respondent engaged in personal financial dealings with a client without the knowledge or consent of his firm when he borrowed \$100,000 from a client, FG, contrary to Dealer Member Rule 29.1.
8. Staff and the Respondent agree to the following terms of settlement:
  - a) The Respondent agrees to pay a fine to IIROC in the sum of seventy five thousand dollars (\$75,000.00);
  - b) The Respondent shall be prohibited from registration in any capacity for a period of six (6) months.
9. The Respondent agrees to pay costs to IIROC in the sum of five thousand dollars (\$5,000.00)

**III. STATEMENT OF FACTS****(i) Acknowledgment**

10. 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

### Overview

11. Without his firm's knowledge, Lee engaged in outside business activities by facilitating off-book equity and debt investments in private placements by six clients in two separate companies totaling \$7,200,000. Lee also failed to question whether the investments in one of the companies was in accordance with the *Securities Act*.
12. In addition, Lee facilitated a short term loan of \$100,000 from two elderly clients to one of the companies, without his firm's knowledge.
13. Lee also borrowed \$100,000 from a client without his firm's knowledge.

### Registration History

14. Lee became licensed in the securities industry as a registered representative "(RR)" in 1989. At all material times, he was employed as an RR in a branch of Richardson GMP Limited ("RGMP") in Edmonton.

### Asia Active Resources Limited

15. In 2007, a friend introduced Lee to TC, the principal of Asia Active Resources Limited ("AAR"), a Hong Kong based company engaged in the supply chain logistics business in Asia. AAR was attempting to raise money from outside investors.
16. Beginning in May, 2008, Lee invited a number of his clients at RGMP to a meeting in Edmonton with TC, concerning a possible investment in AAR.
17. The clients were all high net worth individuals from Alberta, and nearly all were experienced business owners. For each of the clients, their stated investment knowledge in their account documentation was "good".
18. A number of the clients were interested in conducting due diligence concerning possibly investing in AAR. As a group, these clients hired a consultant (a friend of Lee's) to travel to Hong Kong to conduct due diligence.
19. The clients also retained legal counsel in Alberta, and in Hong Kong, to represent them.
20. Between approximately the middle of 2008 and September, 2011, six of Lee's clients invested a total of \$6,000,000 in AAR private placements through a combination of debt and equity. For some of the clients, the funds invested were transferred from their RGMP account. However, the transactions were conducted off-book and AAR securities held by the clients were not held in their respective RGMP client accounts.

21. As compensation for facilitating the investments, AAR issued shares with a value of \$50,000 to Lee in his wife's name, as well as options to purchase an additional 250,000 AAR shares. The options were never exercised and have since expired.
22. AAR did not make any filings with the Alberta Securities Commission ("ASC") in connection with the private placements. Although Lee was facilitating these investments to his clients who were all Alberta residents, Lee did not consider any requirements for filings with the ASC pursuant to the *Securities Act (Alberta)*.
23. In addition, also in September, 2011, Lee facilitated a short term loan in the amount of \$100,000 from two of his clients, JH1 and JH2, to AAR. The clients, who were both in their eighties and had substantial liquid assets, were repaid in full within approximately one week.
24. Lee did not disclose to his firm that he was facilitating transactions for clients whereby they were investing in securities off-book and/or lending funds to AAR off-book.

#### **Castle Rock Research Corporation ("Castle Rock")**

25. In 2009, Lee facilitated an equity investment by three clients in Castle Rock Research Corporation ("Castle Rock"), an Alberta corporation engaged in the sale of textbooks and educational materials.
26. Two of Lee's clients, JH1 and JH2, invested \$850,000 in Castle Rock, while another client, SM, invested \$350,000. Both JH1/JH2, and SM, were high net worth clients with substantial liquid assets.
27. In addition, Lee personally invested approximately \$1,000,000 in Castle Rock through his RRSP account held at RGMP.
28. Lee did not disclose his outside business activities with Castle Rock to his firm, and in particular that he was facilitating transactions for clients in Castle Rock securities off-book.
29. In February, 2012 Castle Rock filed a Notice of Intention to file a Proposal to its creditors under the *Bankruptcy and Insolvency Act*, and an Interim Receiver was appointed by Order of the Court of Queen's Bench of Alberta.

#### **Borrowing from Client**

30. During the last quarter of 2010, Lee borrowed \$100,000 from a client, FG. The purpose of the loan was so that Lee could invest in a wine fund. FG was also an investor in AAR.
31. Lee has repaid \$75,000 of the loan.
32. Lee did not disclose his personal financial dealings with FG to his firm.

**Other Matters**

33. In October, 2011, Lee's employment with RGMP ended. He is not currently employed with an IIROC Dealer Member firm, and has experienced significant financial difficulties since that time.

**IV. TERMS OF SETTLEMENT**

34. This settlement is agreed upon in accordance with IIROC Dealer Member Rules 20.35 to 20.40, inclusive and Rule 15 of the Dealer Member Rules of Practice and Procedure.
35. The Settlement Agreement is subject to acceptance by the Hearing Panel.
36. The Settlement Agreement shall become effective and binding upon the Respondent and Staff as of the date of its acceptance by the Hearing Panel.
37. 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.
38. If the Hearing Panel accepts the Settlement Agreement, the Respondent waives his right under IIROC rules and any applicable legislation to a disciplinary hearing, review or appeal.
39. 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.
40. The Settlement Agreement will become available to the public upon its acceptance by the Hearing Panel.
41. 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.
42. Unless otherwise stated, any monetary penalties and costs imposed upon the Respondent are payable immediately upon the effective date of the Settlement Agreement.

**AGREED TO** by the Respondent at the City of Edmonton, in the Province of Alberta,  
this 9 day of January, 2013.

“Witness”  
**WITNESS**

“Gabriel Ka Leung Lee”  
**RESPONDENT**

**AGREED TO** by Staff at the City of Calgary in the Province of Alberta,  
this 14 day of January, 2013.

“Witness”  
**WITNESS**

“David McLellan”  
**DAVID MCLELLAN**  
Enforcement Counsel on behalf of  
Staff of the Investment Industry  
Regulatory Organization of Canada

**ACCEPTED** at the City of Edmonton, in the Province of Alberta,  
this 6 day of February, 2013, by the following Hearing Panel:

Per: “Alan Beattie”  
Panel Chair

Per: “Donald Milligan”  
Panel Member

Per: “James Ross”  
Panel Member