

IN THE MATTER OF:

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

AND

NICHOLAS KARAKOLIS

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 Nicholas Karakolis (“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.

PART IV – CONTRAVENTION

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

From March 2015 to April 2016, the Respondent failed to comply with his Dealer Member firm's policies and procedures regarding the opening of client accounts, contrary to IIROC Dealer Member Rule 29.1.

Overview

5. During the relevant time, the Respondent, Nicholas Karakolis, was a Business Development Manager at TD Waterhouse Inc. Direct Investing ("TDW") responsible for, among other things, opening order execution only accounts. He had management and oversight of a team of six staff members. At the time the events at issue took place, the Respondent was 26 years old.
6. In early 2015, the Respondent and his staff opened accounts for approximately 220 new clients who were transferring their accounts from a trust company. The Respondent understood that his staff were opening the accounts relying on copies of client identification records without meeting the clients in person or viewing original valid identification documents as required by TDW's policies and procedures ("P&P").
7. Certain of the Respondent's staff understood that he had approval to open accounts in this manner and / or an exception from the P&P requirements.

Registration History

8. The Respondent was an Investment Representative with TDW from 2013 to 2016. He was a Dealing Representative registered with the Mutual Fund Dealers Association at TD Investment Services from 2011 to 2012.
9. The Respondent was promoted to a Manager position at TDW in or about August 2014. He received virtually no substantive training before taking on this role, which he held for approximately a year and a half before his employment was terminated.

The New Client Accounts

10. In February 2015, the Respondent was invited to meet with representatives of a non-profit organization (“the Non-Profit”) whose members had investment accounts with an incorporated trust company (“the Trust Company”).
11. At the time, the Non-Profit members’ accounts held a security called Ansar Financial and Development Corporation (“Ansar Financial”).
12. Ansar Financial was in the process of becoming a publicly traded company and the Trust Company could no longer maintain the accounts, as holding publicly traded securities was contrary to its policies.
13. The members of the Non-Profit therefore needed to transfer their accounts out of the Trust Company. The Respondent agreed to open accounts at TDW and the process began in March 2015.
14. Based on information provided by the Non-Profit, the Respondent expected that he and his team would open approximately 400 accounts; by April 2016 approximately 220 accounts had been opened with TDW as order execution only accounts.

TDW’s Client Identification Verification Requirements

15. According to TDW’s policies and procedures to satisfy the new account opening requirements a TDW employee had to meet the client in person and obtain a certified true copy of the client’s original valid identification.
16. A “CERTIFIED TRUE COPY” stamp was required to be applied to a photocopy of the client’s original valid ID and to be signed by the TDW employee. The stamp represented that the employee had met the client in person and had viewed original valid ID.
17. The ID verification requirements in the policies and procedures are consistent with the Conduct and Practices Handbook (“CPH”) guidelines, as well as with Canadian anti-money laundering (“AML”) legislation and regulations.

Respondent's Conduct Contrary to TDW's Policies and Procedures

18. The Respondent and his staff used the stamp on copies of client IDs, provided to them by a third party related to the Non-Profit, without meeting the clients in person or viewing original valid IDs.
19. Certain of the Respondent's staff state that they understood from him that he had received internal approval to open accounts in this manner, and other staff state that they understood that he had an exception from the requirement to meet clients and view original valid identification documents. This was not accurate.
20. The Respondent told his supervisor he was "vouching" client identification; which she stated that she understood to mean that the Respondent was meeting the new clients in person, one or two at a time, prior to opening the accounts.
21. The clients were transferring their accounts from a trust company and the Respondent and his staff ensured that the client identification provided matched the account information at the trust company.
22. The Respondent told Staff that he met with only one of the Non-Profit members.
23. A significant number of the new clients were located outside of Toronto and/or out of province. The Respondent's supervisor received a weekly report of the new client accounts opened. She did not raise any concerns upon receipt of this report.
24. Opening of new client accounts was related to certain annual targets.

Respondent's Annual Attestations and Training by TDW

25. The Respondent completed annual attestations, including in 2013, 2014, and 2015, that he had reviewed the TDW policies and procedures.
26. Further, the Respondent completed the CPH in 2013 and numerous TDW Regulatory and Compliance training modules/courses between 2012 and 2015 related to either client onboarding procedures or AML issues. The Respondent's staff also completed certain of these TDW modules/courses as part of their training.
27. The Respondent told Staff that he had not been trained in the use of the stamp. However, the use and purpose of the stamp is straight forward.

28. The stamp clearly indicates “CERTIFIED TRUE COPY” and its purpose was to certify that the information provided on the original valid ID was the same as the copy.
29. The Respondent told Staff that he was aware of other staff members at TDW using it in the same manner.

No Evidence of Client Harm

30. Following an internal investigation in April 2016 the Respondent’s employment with TDW was terminated. The Respondent has not worked in the industry since that time.
31. There was no evidence of any client complaints or client losses in relation to the Respondent’s conduct nor is there evidence of any client identification errors in respect of the client accounts.
32. The Respondent does not have a regulatory history with IIROC.

PART V – TERMS OF SETTLEMENT

33. The Respondent agrees to the following sanctions and costs:
 - a) A global fine of \$15,000
 - b) A suspension of 3 months
 - c) A requirement to rewrite the CPH examination prior to reregistration with IIROC, and
 - d) Costs of \$2,000
34. 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

35. 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.

36. 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

37. This Settlement Agreement is conditional on acceptance by the Hearing Panel.
38. 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.
39. 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.
40. 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.
41. 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.
42. The terms of this Settlement Agreement are confidential unless and until this Settlement Agreement has been accepted by the Hearing Panel.
43. 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.
44. 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.

45. 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

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

DATED this “3rd” day of “December”, 2017.

“Witness”
Witness

“Nicholas Karakolis”
Nicholas Karakolis

DATED this “5th” day of “December”, 2017.

“Cynthia Stasinski”
Witness

“Natalija Popovic”
Natalija Popovic
Enforcement Counsel on behalf of
Enforcement Staff of the Investment
Industry Regulatory Organization of
Canada

The Settlement Agreement is hereby accepted this “23rd” day of “January”, 20“18” by the following Hearing Panel:

Per: “Robert Armstrong”
Panel Chair

Per: “Leo Ciccone”
Panel Member

Per: “Christopher Hill”
Panel Member