



Mutual Fund Dealers Association of Canada
Association canadienne des courtiers de fonds mutuels
121 King Street West, Suite 1000, Toronto, Ontario, M5H 3T9
TEL: 416-361-6332 FAX: 416-943-1218 WEBSITE: www.mfda.ca

Contact: Hugh Corbett
Director of Litigation
Phone: 416-943-4685
Email: hcorbett@mfda.ca

BULLETIN #0202 – E
June 23, 2006

MFDA Bulletin

Enforcement

For Distribution to Relevant Parties Within your Firm

MFDA imposes lifetime ban and fines on Joseph Van Der Velden and Andrew Stokman

Nature of Proceeding A Hearing Panel of the Ontario Regional Council of the Mutual Fund Dealers Association of Canada (“MFDA”) has imposed disciplinary penalties on Joseph Van Der Velden (“Van Der Velden”) and Andrew Stokman (“Stokman”), former Approved Persons of the MFDA.

By-Laws, Rules, Policies Violated Following a hearing held on October 14, 2005, the Hearing Panel found that:

1. Van Der Velden and Stokman engaged in securities related business outside the facilities of the Member, contrary to MFDA Rule 1.1.1(a);
2. Van Der Velden accepted \$2.15 million from mutual fund clients and other individuals which he failed to return or otherwise account for, contrary to MFDA Rule 2.1.1;
3. Stokman solicited \$1 million from mutual fund clients (including \$500,000 of the \$2.15 million referred to above) for investment through Van Der Velden, which remains owing and is otherwise unaccounted for, contrary to MFDA Rule 2.1.1; and

4. Van Der Velden and Stokman preferred their own interests to those of their clients, contrary to MFDA Rule 2.1.1.

MFDA Rule 1.1.1(a) states that:

Members. No Member or Approved Person (as defined in By-law 1.1) in respect of a Member shall, directly or indirectly, engage in any securities related business (as defined in By-law 1.1) except in accordance with the following:

- (a) all such securities related business is carried on for the account of the Member, through the facilities of the Member (except as expressly provided in the Rules) and in accordance with the By-laws and Rules,
...

MFDA Rule 2.1.1 states that:

Standard of Conduct. Each Member and each Approved Person of a Member shall:

- (a) deal fairly, honestly and in good faith with its clients;
- (b) observe high standards of ethics and conduct in the transaction of business;
- (c) not engage in any business conduct or practice which is unbecoming or detrimental to the public interest; and
- (d) be of such character and business repute and have such experience and training as is consistent with the standards described in this Rule 2.1.1, or as may be prescribed by the Corporation.

Penalty

The Hearing Panel imposed the following penalties:

1. A permanent prohibition of the authority of Van Der Velden and Stokman to conduct securities related business in any capacity;
2. A fine in the amount of \$500,000 on Van Der Velden; and
3. A fine in the amount of \$75,000 on Stokman.

Summary of Facts

From December 1992 to December 2002, Van Der Velden was registered in Ontario as a mutual fund salesperson. In October 2001, Van Der Velden commenced employment with Cartier Partners Financial Services Inc. (“Cartier”) and was approved as the branch manager of Cartier’s office in London, Ontario until July 2002. Van Der Velden resigned from Cartier on December 31, 2002.

From August 1994 to May 30, 2003, Stokman was registered in Ontario as a mutual fund salesperson. Stokman and Van Der Velden worked together at the same mutual fund dealers, including Cartier. Stokman resigned from Cartier on May 30, 2003, shortly after Van Der Velden left.

In November 2001, both Van Der Velden and Stokman began investing in a scheme operated by an individual named Andrew Lech (the "Lech Investment"). Lech purported to borrow money from investors and promised to pay them substantial rates of return of 10%-35% over a short term (usually 10 weeks). Lech provided investors with a promissory note pledging the return of their initial investment together with a series of weekly or bi-weekly post-dated cheques as payment on account of the promised rate of return.

In January 2002, Van Der Velden and Stokman began advising individuals, including mutual fund clients, to invest in the Lech Investment. Shortly thereafter, Van Der Velden began acting as an intermediary for Lech. Van Der Velden offered investors a rate of return of 10%-20% and then pooled the money he received from investors to make large investments with Lech. Van Der Velden made a profit based on the difference between the rates of return that Lech promised to pay him (20%-35%) and the rates that Van Der Velden promised to pay investors (10%-20%).

Stokman did not act as an intermediary for Lech but facilitated the participation of mutual fund clients through Van Der Velden by participating in presentations to investors, carrying out redemptions of mutual fund investments on behalf of clients so that the proceeds could be invested in the Lech Investment, preparing Lech Investment documents and passing along cheques received from investors to Van Der Velden.

Neither Van Der Velden nor Stokman disclosed to Cartier that they were investing in the Lech Investment or recommending it to mutual fund clients. They did not provide any written disclosure about the Lech Investment to investors or inform them of the risks associated with the Lech Investment. They also did not disclose the fact that the compensation they received as a result of the investors' participation in the Lech Investment substantially exceeded the amount they would have been paid had the investors purchased mutual funds approved by Cartier instead.

In May 2003, the Ontario Securities Commission issued a cease trade order that prohibited Lech from operating the Lech Investment. Lech stopped making payments to Van Der Velden, who in turn stopped making payments to investors.

At the time the cease trade order was issued, Van Der Velden owed approximately Cdn. \$4 million and U.S. \$170,000 to more than 60 investors. Of this amount, approximately \$2.15 million was obtained from investors (including mutual fund clients) between May 2002, when Cartier became a

Member of the MFDA, and December 2002, when Van Der Velden resigned from Cartier. Approximately \$2 million was owed to more than forty clients of Cartier, including more than \$1 million that was owed to fifteen clients serviced by Stokman.

The Hearing Panel noted that “it would not be inaccurate to describe the Lech Investment as a Ponzi scheme” and that both Van Der Velden and Stokman should have known, and in fact knew, that it was a highly improper investment. The Hearing Panel stated that their conduct was particularly serious because Van Der Velden was a branch manager responsible for the supervision of others and Stokman was a certified financial advisor such that he had the credentials to inspire confidence in those he did business with.

For greater detail, see the Decision and Reasons posted on the MFDA website under “Enforcement”.