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In the fall of 2005, B.C. securities regulators cranked up the heat on Vancouver brokerage firms that were acting as conduits for illicit stock transactions.

The B.C. Securities Commission had just completed a marathon hearing into allegations that U.S. promoters had used Pacific International Securities to manipulate the shares of U.S. over-the-counter stocks and launder the proceeds.

A decision in this important case, which was expected to set new standards on Howe Street, was pending. Brokers were waiting with baited breath. Or so we thought.

At the same time, the Investment Dealers Association of Canada was hot on the trail of UnionSecurities, with respect to similar allegations.

The situation was so dire that in July 2005 the IDA placed Union under third-party supervision. This would keep the firm in line. Or so we thought.

In the middle of this regulatory shakedown, three brokerage firms -- two based in Vancouver and one in Toronto -- sold $32 million worth of allegedly fraudulent OTC stock at the behest of their crooked clients, then dispersed the proceeds to accounts in offshore tax and secrecy havens, according to an indictment handed down by a North Carolina grand jury last week.

Shockingly, one of those firms was identified as Union Securities, which during that very period was operating under the third-party supervision of Grant Thornton LLP.

The other Vancouver firm was Global Securities, which, under the leadership of chairman Art Smolensky and president Doug Garrod. The third firm is Blackmont Capital, a Toronto brokerage that also has an affection for OTC stock.

According to the indictment, Montreal promoter Bryan Kos conspired with U.S. spam king Jeremy Jaynes and convicted U.S. felon David Hagen to manipulate the shares of GTX Global Corp. and several other companies quoted on the "pink sheets" in the United States.

The indictment alleges that in April 2005, they delivered millions of GTX shares into a half-dozen offshore accounts, transferred those shares into accounts set up by offshore companies at Union, Global and Blackmont, then dumped the shares into the market.

"Approximately six million shares were sold from the brokerage accounts at Global Securities,Union Securities and Blackmont Capital for proceeds of approximately $32 million," the indictment alleges. "Proceeds of the fraudulent scheme were then further wired to and laundered through various foreign and domestic financial institutions," including First

Caribbean International Bank in the Bahamas, Hellenic Bank in Cyprus, and First Curacao International Bank in the Netherland Antilles.

The indictment cites specific transactions. For example, on Dec. 2, 2005, the conspirators are said to have caused $1.2 million to be wired from an account at Global Securities in the name of Walcott Indies (an Anguilla-registered company) to an account at First Caribbean in the name of Montague Securities (a Bahamian investment advisory firm).

And on Nov. 21, 2005, $70,100 was similarly wired from an account at Union Securities in the name of Toussaint Liberte SA (another Anguilla-registered company) to First Caribbean.

My Lord, if brokers have any responsibility to screen out suspicious activity (which they certainly do under existing "gatekeeper" rules), then the type of transactions referenced in the indictment should be at the top of the list.

Consider also that Union and its principals (brothers Rex, Norm and John Thompson) were already under investigation by the IDA and BCSC for breaching their gatekeeper roles, and under third-party supervision to ensure they didn't commit any more breaches.

In April 2006 -- several months after the alleged GTX transactions -- Union and the Thompsonbrothers admitted to a host of trading infractions and compliance breaches, and agreed to pay a total of $1,775,000 in penalties.

The settlements cited a series of specific breaches, but the GTX transactions were not among them. That raises the question: If the GTX allegations are proven, will the IDA and the BCSC reopen its case against Union?

"I'm not sure whether we knew about this situation," said Warren Funt, the IDA's vice-president of member regulation for Western Canada, referring to the GTX transactions. "If we didn't know about it, I think we could take follow-up action."

Lang Evans, the BCSC's head of enforcement, wasn't sure either. But he was very annoyed to hear that firms under his watch have once again been alleged to be involved in this sort of dirty business.

"I'm not pleased to see reference to this sort of activity coming from B.C. again. We are committed to getting rid of this sort of activity," he said.

He noted that the commission is developing a new set of rules for brokers who trade OTC stock. They will, for example, be prohibited from accepting delivery of OTC stock until that delivery is approved by a designated compliance person. And they won't be allowed to trade that stock until they know who the beneficial owners are. The idea is to stop illicit dealing before it gets started.

One thing is clear: the commission can't assume that these brokerage firms will do the right thing on their own. Just last year, BCSC investigators discovered that seven Vancouver brokerage firms were trading millions of shares of grotty OTC companies, some of which were being touted by spam, for a Liechtenstein bank called Hypo Alpe-Adria Bank without knowing who the beneficial owners were.

Those firms were Union, Blackmont, Wolverton Securities, Research Capital, Canaccord Capital, Haywood Securities, and Gateway Securities.

When the investigators asked bank officials who owned the stock, they refused to say, citing Liechtenstein confidentiality laws. So BCSC enforcement staff took the matter to a hearing. A decision is pending.

A favorable decision will help, but I have always maintained that, if B.C. regulators really want to get the message across, they will have to shut down a few brokerage firms. After reading the latest grand jury indictment, I am more convinced than ever.

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