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Canaccord settles suit for $3.5m: Class action connected to stock fraud perpetrated by former pastor

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Vancouver-based securities dealer Canaccord Capital Corp. has agreed to pay $3.5 million to settle a class-action lawsuit filed against the firm in connection with a stock fraud perpetrated by former Seventh Day Adventist pastor Gary Stanhiser.

The settlement, which has been ratified by B.C. Supreme Court judge Raymond Paris, calls for Canaccord to make an immediate payment of $2.5 million and monthly payments of $100,000 for 10 months.

Lawyer David Church, who represents the victims, said the gross settlement amount represents a recovery of about 40 per cent of the $8.6 million that his clients lost.

Under a contingency fee agreement with victims, his law firm will -- subject to court approval -- take one third (about $1.17 million) of the recovery amount, reducing the percentage recovery for victims to about 27 per cent.

Net proceeds will be distributed on a pro rata basis to about 400 victims who joined the class action. About half are from B.C. and half from the United States.

"We are extremely happy," Church said Wednesday. "We believe this is a higher-than-average recovery for a securities-related class action. There were a number of cases in the United States that were filed but did not succeed. This case, in my view, represented the only realistic opportunity for most of these people."

Paris noted that only two members of the class -- one of whom lost $271,000 and the other $2,000 -- were "adamantly opposed to the settlement and want all of their money back and punitive damages."

However, he noted the case had "already involved very lengthy proceedings. ... The whole matter was pushed to virtually the eve of trial, probably closer to trial than any other class proceeding in this province.

"My best judgment is that if this matter had had to be tried to its full conclusion, it would have taken even longer to complete, would have been cumbersome to manage both for counsel and the court, and inordinately expensive, with no guarantee of success to either side or to any individual."

In the early 1990s, Stanhiser served as a Seventh Day Adventist pastor in California. From 1995 to 1997, he lived and worked in the Vancouver area, where he perpetrated a stock fraud.

He recruited hundreds of investors to lend millions of dollars to several private companies that he had set up in offshore tax havens. He told investors that he would pool the funds and buy large blocks of shares in junior companies, most listed on the former Vancouver Stock Exchange.

In many cases, investor funds had been funnelled through accounts at Canaccord that were administered by broker John Johnston. Johnston also arranged for Stanhiser to hold promotional meetings at Canaccord's downtown office.

As events unfolded, most investors did not receive any shares or get back any money. Most of the money disappeared.

Church noted that the investments did not comply with B.C. securities laws and neither Stanhiser nor his private companies were registered to sell stock in B.C.

He alleged that brokers such as Johnston are required to act as gatekeepers to screen out illegal deals, to know their client and the investment that the client is making, and to ensure that securities rules are followed.

Meanwhile, the B.C. Securities Commission held a hearing and found that Stanhiser had defrauded investors and banned him from the B.C. stock market for life and fined him $100,000. Stanhiser still hasn't paid a cent of the fine.

Canaccord signed a settlement agreement with the commission stating that it did not knowingly participate in Stanhiser's scheme, but admitting it failed to properly supervise its employees or question the transactions being made by Stanhiser and his companies.

It agreed to pay a $300,000 penalty, $45,000 in costs and disgorge $83,000 in fees and commissions. None of that money accrued to investors.

Johnston signed an agreement with the commission admitting that he failed to advise investors they were investing in an illegal scheme or determine the suitability of the investment for his clients.

He agreed to pay a $20,000 penalty, $5,000 in costs and disgorge $77,000 in commissions. Again, none of that money accrued to investors.