



Ontario
Securities
Commission

Commission des
valeurs mobilières
de l'Ontario

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**IN THE MATTER OF THE *SECURITIES ACT*
R.S.O. 1990, c.S.5, AS AMENDED**

AND

PAUL IANNICCA

**SETTLEMENT AGREEMENT BETWEEN
PAUL IANNICCA and
STAFF OF THE ONTARIO SECURITIES COMMISSION**

PART I - INTRODUCTION

1. By Notice of Hearing dated February 3, 2010, the Ontario Securities Commission (the "Commission") announced that it proposed to hold a hearing to consider whether, pursuant to section 127 of the *Securities Act*, R.S.O. 1990, c. S.5 (the "Act"), it is in the public interest for the Commission to make certain orders in respect of Paul Iannicca (the "Respondent").

PART II – JOINT SETTLEMENT RECOMMENDATION

2. Staff of the Commission ("Staff") recommend settlement with the Respondent of the proceeding commenced by Notice of Hearing dated March 13, 2009 (the "Proceeding") according to the terms and conditions set out in Part VI of this Settlement Agreement. The Respondent agrees to the making of an order in the form attached as Schedule "A", based on the facts set out below.

PART III - AGREED FACTS

3. For this proceeding, and any other regulatory proceeding commenced by a securities regulatory authority in Canada, the Respondent agrees with the facts as set out in Part III of this Settlement Agreement.
4. The Respondent is an accountant who practices in Mississauga, Ontario.
5. Gold-Quest International (“Gold-Quest”) was a Panamanian corporation that was controlled by a number of individuals resident in the United States.
6. From June 2006 to May 2008, unbeknownst to the Respondent, Gold-Quest accepted approximately \$29 million (U.S.) from investors, including investors in Ontario, through direct solicitations, an Internet website maintained by Gold-Quest and by referrals from existing investors.
7. On May 6, 2008, the Securities and Exchange Commission of the United States (the “SEC”) filed a complaint in the United States District Court, District of Nevada, alleging that Gold-Quest was operating a pyramid or “Ponzi” scheme. Gold-Quest has never been registered in any capacity with the SEC. The SEC further alleged that Gold-Quest used very little of the money that it raised for legitimate investments but rather the vast majority of new investor funds was used by Gold-Quest to make payments to current investors and commissions to participants in the Ponzi scheme. The SEC complaint (and the related allegations advanced by the SEC) was not in place at the time the Respondent dealt with Gold-Quest as outlined herein.
8. Individuals that introduced an investor to Gold-Quest would receive the title “Administrative Manager” for the new investor. Administrative Managers would receive an up-front commission of 10% of that investor’s original investment and then a further 4% per month for a year (for a total commission of 58% of the principal invested). The individual who introduced the Administrative Manager to Gold-Quest would receive the title “Managing Director” for the new investor and would receive a commission of 1.5% per month (for a

year for a total of 18% of the principal invested). Lastly, the individual who introduced the Managing Director to Gold-Quest would receive the title “Supervisory Managing Director” for the new investor and would receive a commission of 1% per month for one year (for a total of 12% of the principal invested). In sum, when a new investor sent funds to Gold-Quest, 88% of that investor’s funds were earmarked for commissions to be paid to their Administrative Manager, Managing Director and the Supervisory Managing Director over the course of a year.

9. From June 2006 until May, 2008, Gold-Quest disbursed \$20.3 million (U.S.) through distributions to investors and payment of commissions as set out in paragraph 6 and 7. Unbeknownst to the Respondent, Gold-Quest received no significant income from its investments or business operations during this period.
10. Gold-Quest has ceased to operate and has been put into receivership by order of the United States District Court. As of December 12, 2008, the receiver appointed by the United States District Court had only recovered \$273,475.85 (U.S.).

ii) Trading in Gold-Quest Securities in Ontario

11. Gold-Quest has never been registered in any capacity with the Ontario Securities Commission (the “Commission”).
12. No preliminary prospectus or prospectus has ever been filed with the Commission to attempt to qualify the trading of Gold-Quest securities.
13. The Respondent was registered with the Commission as a limited market dealer with London House Capital Management from May 29, 2007 to December of 2008.
14. During the five month period between April and August of 2007 (the “Material Time”), approximately 38 Ontario residents (the “Gold-Quest Investors”), many of whom were accredited investors, invested approximately \$300,000 (U.S.) with Gold-Quest in connection

with, in part, the activities of the Respondent. These activities included recommending investing with Gold-Quest, providing information regarding the nature of the investment with Gold-Quest and acting as a intermediary between Gold-Quest and the Gold-Quest Investors. These actions by the Respondent constituted acts in furtherance of a trade.

15. The Respondent invested his own funds in Gold-Quest as well as funds provided to him by friends and members of his family, and the Respondent also personally sustained losses in connection with his investment in Gold-Quest.
16. The Gold-Quest Investors entered into one-year investment contracts with Gold-Quest. Gold-Quest stated investor funds would be invested in the foreign exchange or “forex” market. Gold-Quest informed the Gold-Quest Investors that they would receive an annual return on investment equal to 87.5% of the funds invested with Gold-Quest. However, in order to receive this 87.5% investment return, the Gold-Quest Investors would be required to leave their funds with Gold-Quest for a year.
17. When the Gold-Quest Investors entered into the investment contracts with Gold-Quest, the Respondent became their “Administrative Manager” .
18. The Respondent understood the nature of the investment contract entered into by the Gold-Quest Investors to be as outlined in paragraph 16 above and was aware of the commission structure outlined above in paragraph 8. While many of the Gold-Quest Investors were informed that the Respondent was to receive compensation for introducing them to Gold-Quest, most of the Gold-Quest Investors were not aware of the full particulars of the commission structure outlined above in paragraph 8.
19. As Administrative Manager, the Respondent received \$100,794.90 in commissions from Gold-Quest as a direct result of the investments of the Gold-Quest Investors.

**PART IV - CONDUCT CONTRARY TO ONTARIO SECURITIES LAW
AND THE PUBLIC INTEREST**

20. By recommending investments in Gold-Quest to some persons who were not accredited investors and receiving commissions from Gold-Quest as a direct result, the Respondent's conduct constituted trading in securities of Gold-Quest without the proper registration as required by subsection 25(1) of the Act.
21. Also, the Respondent's conduct constituted trading in securities of Gold-Quest contrary to section 53 of the Act, as no preliminary prospectus or prospectus was filed with the Commission to qualify the trading of Gold-Quest securities.
22. The Respondent's conduct was contrary to the public interest.

PART V – RESPONDENT'S POSITION

23. The Respondent requests that the settlement hearing panel consider the following mitigating circumstances.
24. Throughout, the Respondent cooperated with Staff's investigation.
25. During the Material Time, the Respondent was not aware of any fraudulent activity by the principals of Gold-Quest and there is no evidence that the Respondent in any way personally deceived or defrauded the Gold-Quest Investors. Consistent with this, the Respondent had no role in any underlying fraudulent activities of Gold-Quest.
26. During the Material Time, the Respondent was of the belief that Gold-Quest was a legitimate investment and that investor funds were being used to generate profits in the foreign exchange market as represented by Gold-Quest.

27. The Respondent generally advised the Gold-Quest Investors that, given the prospect for significant gains, there could also be considerable risk in the Gold-Quest Investment, including the prospect that the investors would lose their investment in its entirety.
28. Many of the Gold-Quest Investors did due diligence of their own in connection with the Gold-Quest investment and the Respondent encouraged the Gold-Quest Investors to do so before making a decision to invest with Gold-Quest.
29. Upon learning of the legal difficulties of Gold-Quest and that it was put into a receivership, the Respondent informed the Gold-Quest Investors of this and immediately ceased all activity relating to Gold-Quest.
30. The Respondent has compensated three of his family members and one friend for losses they incurred in Gold-Quest in the amount of \$39,943.06 and paid tax to the Canada Revenue Agency on the full amounts received.

PART VII - TERMS OF SETTLEMENT

31. The Respondent agrees to the following terms of settlement listed below.
32. The Commission will make an order pursuant to section 127(1) of the Act that:
 - (a) the Respondent is prohibited for ten years from becoming or acting as a registrant.
 - (b) any exemptions contained in Ontario securities law do not apply to the Respondent for ten years.
 - (c) the Respondent disgorge to the Commission the amount of \$60,851.84 to be allocated under section 3.4(2)(b) to or for the benefit of third parties.

PART VIII - STAFF COMMITMENT

33. If the Commission approves this Settlement Agreement, Staff will not commence any proceeding under Ontario securities law in relation to the facts set out in Part III of this Settlement Agreement, subject to the provisions of paragraph 34 below.
34. If the Commission approves this Settlement Agreement and the Respondent fails to comply with any of the terms of the Settlement Agreement, Staff may bring proceedings under Ontario securities law against the Respondent. These proceedings may be based on, but are not limited to, the facts set out in Part III of this Settlement Agreement as well as the breach of the Settlement Agreement.

PART IX – PROCEDURE FOR APPROVAL OF SETTLEMENT

35. The parties will seek approval of this Settlement Agreement at a public hearing before the Commission which commenced on February 3, 2010 and continued on February 10, 2010, or on another date agreed to by Staff and the Respondent, according to the procedures set out in this Settlement Agreement and the Commission's Rules of Practice.
36. Staff and the Respondent agree that this Settlement Agreement will form all of the agreed facts that will be submitted at the settlement hearing on the Respondent's conduct, unless the parties agree that additional facts should be submitted at the settlement hearing.
37. If the Commission approves this Settlement Agreement, the Respondent agrees to waive all rights to a full hearing, judicial review or appeal of this matter under the Act.
38. If the Commission approves this Settlement Agreement, neither party will make any public statement that is inconsistent with this Settlement Agreement or with any additional agreed facts submitted at the settlement hearing.
39. Whether or not the Commission approves this Settlement Agreement, the Respondent will not use, in any proceeding, this Settlement Agreement or the negotiation or process of approval of this agreement as the basis for any attack on the Commission's jurisdiction,

alleged bias, alleged unfairness, or any other remedies or challenges that may otherwise be available.

PART X – DISCLOSURE OF SETTLEMENT AGREEMENT

40. If the Commission does not approve this Settlement Agreement or does not make the order attached as Schedule “A” to this Settlement Agreement:
 - (a) this Settlement Agreement and all discussions and negotiations between Staff and the Respondent before the settlement hearing takes place will be without prejudice to Staff and the Respondent; and
 - (b) Staff and the Respondent will each be entitled to all available proceedings, remedies and challenges, including proceeding to a hearing of the allegations contained in the Statement of Allegations. Any proceedings, remedies and challenges will not be affected by this Settlement Agreement, or by any discussions or negotiations relating to this agreement.

41. Both parties will keep the terms of the Settlement Agreement confidential until the Commission approves the Settlement Agreement. At that time, the parties will no longer have to maintain confidentiality. If the Commission does not approve the Settlement Agreement, both parties must continue to keep the terms of the Settlement Agreement confidential, unless they agree in writing not to do so or if required by law.

PART X – EXECUTION OF SETTLEMENT AGREEMENT

- 42. The parties may sign separate copies of this agreement. Together, these signed copies will form a binding agreement.
- 43. A fax copy of any signature will be treated as an original signature.

Dated this 9th day of February, 2010.

STAFF OF THE ONTARIO SECURITIES COMMISSION

“Tom Atkinson”

Director, Enforcement Branch
Ontario Securities Commission

PAUL IANNICCA

“Paul Iannicca”

Paul Iannicca

“ Michael Magonet”

Witness



Ontario
Securities
Commission

Commission des
valeurs mobilières
de l'Ontario

P.O. Box 55, 19th Floor
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Schedule A

IN THE MATTER OF THE *SECURITIES ACT* R.S.O. 1990, c.S.5, AS AMENDED

– AND –

IN THE MATTER OF PAUL IANNICCA

ORDER

WHEREAS on March 13, 2009, the Commission issued a Notice of Hearing pursuant to section 127 of the *Securities Act* (the “Act”) in respect of the trading of securities in Gold-Quest International (“Gold-Quest”) by Paul Iannicca (the “Respondent”);

AND WHEREAS on March 12, 2009, Staff of the Commission filed a Statement of Allegations;

AND WHEREAS the Respondent entered into a Settlement Agreement dated February 2nd, 2010 (the “Settlement Agreement”) in relation to the matters set out in the Statement of Allegations;

AND WHEREAS the Commission issued a Notice of Hearing dated February 3, 2010, setting out that it proposed to consider the Settlement Agreement;

UPON reviewing the Settlement Agreement, the Notice of Hearing, the Statement of Allegations, and upon considering submissions from the Respondent through his agent and from Staff of the Commission;

AND WHEREAS the Commission is of the opinion that it is in the public interest to make this Order;

IT IS HEREBY ORDERED, PURSUANT TO SECTION 127 OF THE ACT, THAT

:

1. the Settlement Agreement dated February 9, 2010, between Staff of the Commission and the Respondent is approved;
2. the Respondent is prohibited for ten years from becoming or acting as a registrant;

3. any exemptions contained in Ontario securities law do not apply to the Respondent for ten years; and
4. that the Respondent disgorge to the Commission the amount of \$60,851.84 to be allocated under section 3.4(2)(b) to or for the benefit of third parties.

Dated at Toronto, Ontario this ___ day of February, 2010.
