



ENFORCEMENT REPORT 2018

An aerial, high-angle photograph of a large, paved plaza. The plaza is composed of light-colored, rectangular tiles. A large, curved concrete curb runs across the top right portion of the image. Numerous people of various ages and ethnicities are scattered across the plaza, some walking in groups, some alone, and some sitting on the ground. The overall scene is busy and populated.

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ABOUT IIROC

The Investment Industry Regulatory Organization of Canada (IIROC) is the national, self-regulatory organization (SRO) responsible for the oversight of Canada's investment dealers, as well as trading activities on debt and equity marketplaces in Canada.

IIROC is one part of the Canadian securities regulatory framework that consists of 10 provincial and three territorial securities regulators [collectively the Canadian Securities Administrators (CSA)], as well as SROs including IIROC and the Mutual Fund Dealers Association (MFDA), whose activities are overseen by CSA members.

IIROC's regulatory mandate is to set and enforce high-quality regulatory and investment industry standards, protect investors and strengthen market integrity while supporting healthy capital markets. IIROC pursues this mandate by developing, testing for compliance with and enforcing a broad spectrum of member and market proficiency, conduct and prudential rules.

All investment dealers (also referred to as Dealer Members) and Canadian marketplaces overseen by IIROC are subject to a rigorous regulatory approval process. Individuals wanting to work at IIROC-regulated firms in specific roles must apply for approval and must also invest in their professional development. This includes completing a mandatory number of continuing education requirements every two years.

IIROC's vision is to be known for its integrity, transparency and fair and balanced solutions. IIROC aims for excellence and regulatory best practices. Its actions are driven by sound, intelligent deliberation and consultation.

THE ROLE OF ENFORCEMENT

IIROC's Enforcement Department (Enforcement) is responsible for the enforcement of IIROC's Dealer Member Rules (DMR), relating to the sales, business and financial conduct of its Dealer Members and their registered employees, as well as the Universal Market Integrity Rules (UMIR) relating to the trading of listed securities on all Canadian marketplaces.

Enforcement plays a key role in IIROC's pursuit in protecting investors and supporting healthy capital markets across Canada. Enforcement works with IIROC's other departments (including Complaints & Inquiries, the various compliance groups, Trading Review & Analysis, and Registration) to ensure timely identification, investigation and prosecution of regulatory misconduct, as well as the detection and pre-emptive disruption of potential misconduct.

MESSAGE FROM

SENIOR VICE-PRESIDENT, REGISTRATION AND ENFORCEMENT

Notable achievements marked IIROC's path forward in 2018 – both in the continued pursuit of more-effective legal authority for our enforcement activities and in new initiatives to provide us with more flexibility when addressing rule breaches.

INCREASED LEGAL AUTHORITY COAST-TO-COAST

This past year, IIROC worked diligently to obtain greater legal authority from provincial and territorial governments across Canada to enhance our enforcement effectiveness. We made significant progress in our ongoing work to secure a more complete enforcement toolkit to better protect investors and the integrity of Canada's capital markets.

- **Saskatchewan – May 2019:** IIROC received authority to collect fines directly through the courts.
- **Prince Edward Island (PEI) – December 2018:** IIROC received authority to better collect evidence during investigations as well as protection from malicious lawsuits. The legislation bolstered the authority IIROC had in PEI since January 2017 to collect fines through the Supreme Court of PEI and better present evidence at disciplinary hearings. IIROC now has the full enforcement toolkit in PEI.
- **Northwest Territories, Nunavut and Yukon – November 2018:** IIROC received legal authority to collect fines and the ability to improve cooperation with third parties for disciplinary hearings.
- **Nova Scotia – October 2018:** IIROC received authority to collect fines as well as improved its ability to collect evidence during investigations and at disciplinary hearings. IIROC now also has protection from malicious lawsuits, giving us the full enforcement toolkit in Nova Scotia.
- **Manitoba – June 2018:** IIROC received authority to collect fines as well as protection against malicious lawsuits.
- **Quebec – June 2018:** IIROC received authority to collect evidence during investigations and improve cooperation at the disciplinary hearings stage. The legislation also gave IIROC full protection against malicious lawsuits. IIROC has the full enforcement toolkit in Quebec, having already received authority to collect fines in 2013.



IIROC's drive is to consistently protect investors in communities across Canada.

With Alberta having granted IIROC full enforcement powers in 2017, IIROC now has all the tools it requires in four provinces and fine collection abilities in eight provinces and the three territories. We are thankful for the cooperation and support we have received to date from the provincial and territorial governments, and their respective commissions or regulatory agencies.

In just over two years, we have taken great strides in our commitment to provide Canadian investors with a consistent level of protection regardless of where they live. We continue to work with governments across the country to strengthen our legal authority, with the ultimate goal to have the full enforcement toolkit in every province and territory.

Why are we so committed to this toolkit? It makes a meaningful contribution to investor protection. Where IIROC has gained increased legal authority, we have observed an overall change in behaviour among registrants facing discipline: they know they operate in an environment where they are accountable for their actions, the sanctions are real and they cannot escape monetary sanctions simply by leaving the industry. This tool serves as a powerful potential deterrent effect in knowing that there will be consequences if you breach our rules and harm investors. For example, in Ontario, in FY2019, we saw the collection rate jump to 45% from 11% in FY2018, appreciably higher than our national average, which currently stands at 30%.

ALTERNATIVE DISCIPLINARY PROPOSALS

In last year's Enforcement Report, we shared that IIROC had launched an extensive public consultation to seek feedback on the two new tools that could provide us with more flexibility and efficiency when addressing wrongdoing. Specifically, we were considering two disciplinary programs: 1) a minor violation program to provide set fines for minor rule infractions, in lieu of a formal hearing; and 2) early resolution offers to conclude settlements at an earlier point in the disciplinary process.

MESSAGE FROM SENIOR VICE-PRESIDENT, REGISTRATION AND ENFORCEMENT

In addition to the comments IIROC received from various stakeholders, it was important for us to engage directly with investors to get their input. In July 2018, we held focus groups and, as previously committed, we also surveyed over 1,000 Canadians from IIROC's online Investor Panel of 10,000 investors, coast-to-coast. We found that the majority (76%) support an early settlement program and that most (63%) strongly support flexibility in dealing with minor violations. There was strong agreement (70-85%) among respondents that serious violations should continue to result in a formal hearing.

Most recently, in April 2019, we published a request for further public comment on proposed rule amendments to enable us to create these new programs.

PROTECTING ELDERLY OR VULNERABLE INVESTORS

Our day-to-day work represents IIROC's drive to consistently protect investors in communities across Canada – from the smallest of towns to the largest of cities. While the majority of IIROC-regulated advisors adhere to high ethical and professional standards, some do not. Elderly or vulnerable investors, in particular, need protection from the few bad apples who would threaten their hard-earned retirement savings.

As a part of our daily activities, IIROC works with various stakeholders for whom we are grateful. This includes consumer advocates like CARP and Prosper Canada, our regulatory and government partners such as the Canadian Securities Administrators, insurance regulators, and provincial/territorial ministries of finance and justice. Our information-sharing agreements with regulatory and government partners help us close gaps in the financial service regulatory framework. This prevents wrongdoers from switching jurisdictions or the types of financial products they sell (such as moving from securities to segregated funds – an insurance product).

Enforcing high regulatory standards in the investment industry remains a top priority. As we embark on new initiatives and continue with our ongoing work, we will focus, as always, on protecting Canadian investors and their confidence in Canada's capital markets.

Elsa Renzella

Senior Vice-President, Registration and Enforcement

Enforcement must be:

FAIR

IIROC's enforcement process is fair and impartial. Prosecutions are based on thorough investigations; hearings are transparent and conducted by impartial hearing panels, chaired by legal professionals.

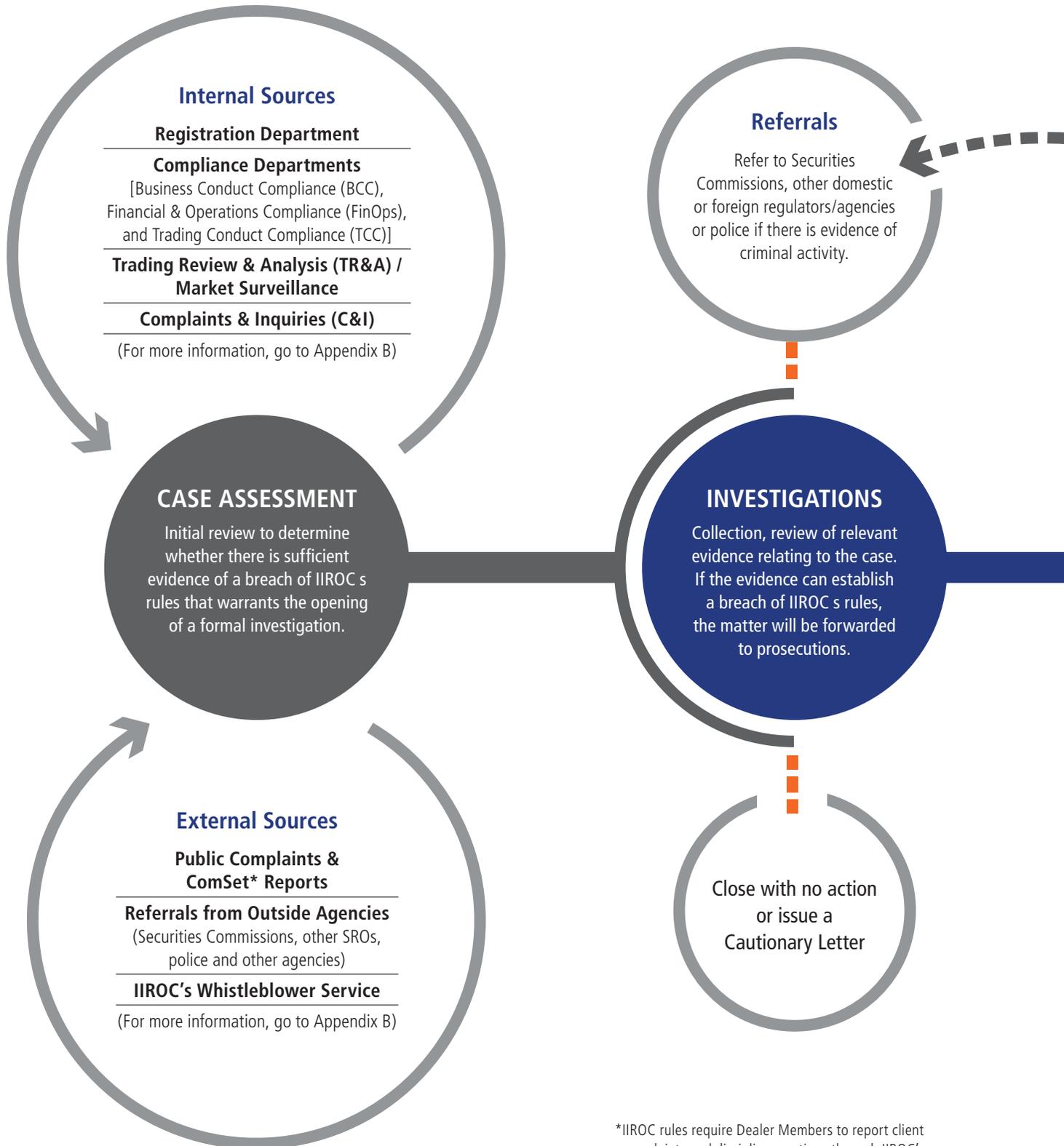
EFFECTIVE

Enforcement aims to promote compliance within the investment industry by sending strong regulatory messages that deter potential wrongdoers and helps to build investor confidence in the Canadian capital markets.

TIMELY

Timely investigation and prosecution of misconduct protects investors and strengthens the public's confidence in self-regulation.

ENFORCEMENT PROCESS



*IIROC rules require Dealer Members to report client complaints and disciplinary actions through IIROC's Complaint and Settlement Reporting System.

PROSECUTIONS

The initiation of formal disciplinary action against a Respondent (Dealer Member or individual registrant). The formal hearing will take place before an IIROC hearing panel, an expert administrative panel consisting of an independent chair from the legal community and two industry members.

Disciplinary Proceedings

Contested Hearings

Settlement Hearings

Temporary Order Applications

Protective Order Applications

(For more information, go to Appendix C)

Penalties

If a Dealer Member or individual registrant is found to have violated IIROC rules, the following penalties may be imposed:

FIRMS

A reprimand

Fines, up to a maximum of \$5 million per contravention or an amount equal to three times the profit made, or loss avoided

Imposition of conditions on membership

A period of suspension

Expulsion

INDIVIDUALS

A reprimand

Fines, up to a maximum of \$5 million per contravention or an amount equal to three times the profit made, or loss avoided

Imposition of conditions on registration

A period of suspension

A permanent ban

Use of Fines and Cost Awards

Generally speaking, all fines collected can only be used for the benefit of investors through education programs, the administration of disciplinary panels and/or the development of programs or systems to address emerging regulatory issues. See Fine Collection Rates on page 29.

The Canadian Securities Administrators' Recognition Orders of IIROC require that all fines collected by IIROC can only be used for the above purposes.

Pursuant to IIROC Rules, IIROC cost awards are used to pay for any costs incurred by IIROC in relation to its investigations and hearings.

ENFORCEMENT

ACTIVITIES

This past year was productive for Enforcement as we completed key cases that sent a strong regulatory message and supported our overall strategic focus. We continued to investigate matters on conflicts of interest, which led to five prosecutions, and we prosecuted two firms for charging excessive fees to clients over several years. We also continued to hold those in a senior position accountable for supervisory/compliance failings, disciplining two Ultimate Designated Persons (UDP) and one Chief Financial Officer (CFO). Enforcement also experienced a two-fold increase from last year (8 to 16) in the number of cases involving inappropriate financial dealings and outside business activities.

Enforcement's core focus remains suitability, with close to half of all suitability cases involving seniors. Suitability was once again the top complaint reviewed by our Case Assessment unit and represented a third of our prosecutions. Cases involving seniors represented a third of cases reviewed and approximately a quarter of prosecutions. The types of unsuitability cases varied although there was an identifiable subset involving inappropriate concentration of or active trading in resource/energy securities.

Effective oversight of the Canadian marketplaces continues to be a priority for Enforcement. We work closely with IIROC's Trading Review & Analysis (TR&A) department to identify and investigate manipulative and deceptive trading activities. In 2018, we concluded a lengthy prosecution involving allegations of layering, which resulted in a significant sanction that included a five-year suspension of access to IIROC-regulated marketplaces.

Where IIROC detects any potential market-related violations by clients of IIROC dealers, we refer such matters to the relevant CSA jurisdiction. Both Enforcement and TR&A also work with CSA jurisdictions on matters of mutual interest. In 2018, TR&A referred 51 market-related cases to the CSA: [Manipulation (32), Insider Trading (11) and Other Securities Act Violations (8)].

Overall, this past year, Enforcement witnessed a high caseload volume yet this did not diminish the quality, timeliness and effectiveness of how we pursued these cases. Our work demonstrated our commitment to ensuring the protection of Canadian investors and the integrity of Canada's capital markets.

SELECTED CASE HIGHLIGHTS

CONFLICT OF INTEREST

Graham Kirkland (Settlement)

- Toronto, Ontario – BMO Nesbitt Burns
- Conflict of Interest: DMR 42.2
- Failure to Escalate Client Complaint: DMR 3100
- **Fine of \$90,000 Inclusive of Disgorgement | Costs of \$10,000**

During a two-year period, Graham Kirkland made numerous recommendations to several clients to purchase new issues. Those clients were in fee-based accounts and the new issues generated an additional commission that roughly doubled his earnings, resulting in a significant financial benefit to him.

In a number of cases, the new issues did not perform well over a short timeframe and Kirkland recommended selling them with no profit. Kirkland used the proceeds generated by the sale of new issues to purchase new ones and repeat the cycle.

Kirkland admitted that the commissions paid to him on new issues influenced his decision, at least in part, to recommend them to his clients. By increasing his trading in new issues, he doubled his compensation without increasing his assets under management.

Kirkland admitted that he failed to take reasonable steps to identify, address and avoid the potential material conflict of interest that resulted from his recommendations and purchases of new issues. Additionally, he failed to escalate a client's written complaint to his firm. Kirkland compensated two clients for the losses they incurred because of his actions. The fine against him would have been higher, had his financial circumstances been different.

IIROC also entered into a settlement agreement with Kirkland's supervisor, Steven Henry Brophy, for failing to adequately supervise Kirkland. Brophy was aware that BMO's head office was concerned about Kirkland's commissions and required Kirkland to justify his requests for new issues. However, Brophy took no steps to address these matters until after clients complained. Brophy paid a fine of \$75,000, costs of \$5,000 and undertook remedial education.

SELECTED CASE HIGHLIGHTS

David Durno (Settlement)

- Toronto, Ontario – TD Waterhouse Inc.
- Conflict of Interest: DMR 29.1 and 42.2
- **Fine of \$150,000 | Close Supervision until December 2018 | Costs of \$5,000**

Over a five-year period, David Durno recommended and implemented active trading in new issues and government bonds for two senior clients. Both clients were in accounts where they paid a commission on every trade, even though fee-based accounts were available at Durno's firm.

Durno's trading generated large commissions for himself and his firm, and reduced the profits realized by the clients. The clients did not suffer losses although the commissions they paid eroded their returns. Their costs would have been significantly lower in fee-based accounts.

Durno's firm compensated the clients for the difference between the commissions they paid and the commissions they would have been charged in fee-based accounts. Durno admitted that he failed to adequately consider the best interests of two clients.

TD Waterhouse (Settlement)

- Toronto, Ontario
- Supervision: DMR 38.1 and 2500
- **Fine of \$140,000 | Costs of \$10,000**

IIROC disciplined TD Waterhouse Inc. for failing to adequately supervise Durno.

David Durno's active trading for two of his senior clients generated commissions that frequently exceeded the thresholds set out in IIROC's DMR 2500, which requires that certain accounts be selected for monthly review. The clients' accounts often appeared on the monthly reports generated for TD Waterhouse Tier 1 and Tier 2 reviews. However, TD Waterhouse did not identify or address any issues relating to Durno's commissions.

TD Waterhouse acknowledged that it failed to adequately supervise Durno. Following a full review of his book, TD Waterhouse compensated the affected clients for their trading costs, and also improved its supervision of commissions generated from clients and from new issue securities.

Worldsource Securities Inc. (Settlement)

- Toronto, Ontario
- Supervision: DMR 38.1 and 2500
- Conflict of Interest: DMR 42
- **Fine of \$100,000 (\$50,000 per Violation) | Costs of \$5,000**

Worldsource Securities Inc. launched a proprietary fund (Fund) in which clients invested approximately \$20 million, mostly in fee-based accounts. Participation was limited to accredited investors or non-accredited investors who were prepared to invest a minimum of \$150,000.

The Fund paid the firm, as Fund manager, an annual management fee, most of which was paid to one of the firm's registrants who served as the Fund advisor. The Fund advisor was also entitled to a performance fee based upon the net asset value of the Fund. These fees were disclosed to clients in a term sheet provided at the time of purchase. However, the term sheet did not address the annual account fee, which was only disclosed in fee-based account agreements. For this reason, clients may not have clearly understood the cumulative impact of all these fees, including the actual or perceived conflict of interest created by the compensation structure that gave the firm and advisor potential economic benefits by recommending this Fund over other securities.

In November 2015, Worldsource issued a notice to unitholders of the Fund advising, among other things, of a decrease in the management fee and clarifying all of the fees. The Fund was profitable and no clients complained to Worldsource.

Additionally, Worldsource required its Registered Representatives to advise of any mutual funds with embedded compensation so that clients who held those funds in fee-based accounts would not be charged. However, over a six-year period, 236 accounts paid excess fees of \$148,904.40 on investments that should have been excluded from the fee calculation.

After IIROC identified the issue, Worldsource advised its clients in writing about the excess fees and reimbursed them. Worldsource also implemented revised policies to identify investments in fee-based accounts to exclude from the fee calculation.

SELECTED CASE HIGHLIGHTS

SUITABILITY

Adam Woodward (Disciplinary Hearing)

- Calgary, Alberta – Richardson GMP Limited
- Suitability and Know your client (KYC): DMR 1300.1(a) and (q)
- Unauthorized Discretionary Trading: DMR 1300.4
- Personal Financial Dealings: DMR 43
- **Permanent Ban | Fine of \$450,000 | Costs of \$50,000**

Over a period of approximately three-and-a-half years, Adam Woodward recommended and employed a high-risk investment strategy that focused on highly concentrated positions in speculative energy sector securities. Many of these investments were private placements in thinly traded or illiquid securities for which his clients did not qualify. The clients suffered substantial losses, varying between 21% and 94% of the total value of their portfolios.

Woodward applied his high-risk strategy broadly across his client base, without regard to his clients' individual circumstances. Many of the clients were vulnerable, had limited investment knowledge and relied on him for his investment expertise.

Woodward refused to participate in the investigation and the proceedings.

The hearing panel accepted IIROC's allegations. It found that Woodward failed to know his clients, failed to ensure that his investment recommendations were suitable for them, and failed to ensure the clients qualified for investor exemptions. The hearing panel also found that Woodward had engaged in discretionary trading without being authorized and approved to do so, and that he engaged in personal financial dealings with a client without his firm's knowledge or consent.

Darryl Joseph Yasinowski (Settlement)

- Regina, Saskatchewan – Mackie Research Capital Corporation
- Suitability and KYC: DMR 1300.1(a) and (q)
- **Fine of \$90,000 | Suspension of Six Months |
Close Supervision for 18 Months | Costs of \$10,000**

Darryl Yasinowski failed to know five of his clients and failed to use due diligence to ensure that his investment recommendations were suitable. He pursued an aggressive investment strategy, which involved many high-risk, speculative securities such as options and leveraged and inverse exchange-traded funds, as well as extensive use of margin.

The five clients' accounts were all managed, fee-based accounts that gave Yasinowski authorization to exercise discretionary authority. The clients all had limited investment knowledge and some were vulnerable.

One vulnerable client, whose \$115,000 account was entirely borrowed funds, lost 55% of her portfolio. The holdings in her accounts were speculative and, in combination with the high level of leverage, presented a degree of risk that was contrary to her stated investment objectives as well as her true circumstances. Overall, the five clients sustained losses ranging from 32% to 58% of the total value of their portfolios.

FAILURE TO KNOW YOUR CLIENT AND SAFEGUARD CLIENT INFORMATION

Shafique Hirani (Settlement)

- Calgary, Alberta – Investors Group Securities Inc.
- KYC: DMR 1300.1(a)
- Conduct Unbecoming: DMR 29.1
- **Suspension of Three Months | Fine of \$70,000 | Close Supervision for Six Months | Rewrite of Conduct and Practices Handbook Course (CPH) | Costs of \$15,000**

Shafique Hirani was transferring from the MFDA-based Investors Group Financial Inc. (IG Financial) to the IIROC-based Investors Group Securities Inc. (IG Securities). During the transfer, Hirani permitted or directed his staff to fill in pre-determined investment profiles for his clients. In some cases, this included inserting the profiles into partially completed account forms that clients had signed for him in advance. Of the 368 clients that transferred to IG Securities, 364 showed identical investment profiles.

In addition, Hirani stored client-related documents (many of which included personal information) on the cloud-based storage service Dropbox without prior approval from his firm and clients. In doing so, he contravened IG Securities policies. The use of Dropbox resulted in a lack of control over this information.

Hirani admitted he failed to use due diligence to learn and remain informed of the essential facts regarding 364 of his clients. He also admitted he dealt with his clients' personal information in a manner that was unbecoming and detrimental to the public interest, and that his actions were inconsistent with IIROC's high standards of ethics.

SELECTED CASE HIGHLIGHTS

SUPERVISION OF FEE-BASED ACCOUNTS

Raymond James Ltd. (Settlement)

- Vancouver, British Columbia
- Conflict of Interest: DMR 42.2
- Supervision: DMR 38.1 and 2500
- **Fine of \$75,000 Inclusive of Disgorgement | Costs of \$2,500**

Raymond James' selection procedures for supervision of fee-based accounts included two conditions based on the average monthly fees charged and a set range of trades per year. The selection criteria resulted in the exclusion of a significant portion of accounts from monthly Tier 1 and Tier 2 reviews. These included fee-based accounts with assets less than \$420,000 and accounts with large cash holdings that remained uninvested for periods of time.

Four clients from two families complained to Raymond James about uninvested cash in fee-based accounts. The Registered Representative for those clients compensated them for fees associated with their cash holdings.

Raymond James admitted that its procedures for selecting fee-based accounts for supervisory review were not sufficient. The IIROC hearing panel noted that, "Dealer Members must exercise reasonable diligence to monitor their selection process not only for the fee-based accounts that they select (for review) but also for those that are excluded". Raymond James has proactively taken steps to improve its approach to fee-based account supervision.

SUPERVISION OF RETAIL ACCOUNTS

CIBC World Markets Inc. and Robert Trickey (Settlement)

- Vancouver, British Columbia
- **CIBC: Supervision – DMR 38.1 and 2500**
- **CIBC: Fine of \$125,000 | Costs of \$10,000**
- **Trickey: Supervision and Records – DMR 38.5, 38.1(vii) and 2500**
- **Trickey: Fine of \$40,000 | Costs of \$5,000**

Robert Trickey, a Branch Manager and Supervisor at CIBC, failed to adequately supervise the activities of a Registered Representative.

Trickey investigated concerns regarding the increase in risk in some of the Registered Representative's client accounts, some of whom were seniors on fixed incomes. Many of the suitability queries were resolved by increasing the clients' risk tolerance without any other corresponding change to the clients' circumstances on the KYC update. Trickey took inadequate steps to independently assess whether the increases in risk tolerance were suitable for the clients, and largely relied on the Registered Representative to verify that the clients understood and accepted the consequences. In addition, there were some suitability queries that were not resolved by either KYC updates or a request by Trickey to rebalance the accounts.

Trickey also failed to adequately document all his supervision activities. He should have documented why the increase in risk was suitable for the clients, taking into account their circumstances including income, time horizon, age, assets, investment experience and other individual factors.

CIBC was aware of the ongoing suitability queries and was aware that many were resolved by an increase in the risk tolerance of the clients without any other corresponding change to the clients' circumstances on the KYC update. The Compliance department at CIBC's head office notified branch management and relied on Trickey to verify that the updates were suitable to resolve the outstanding suitability queries, which was inadequate. CIBC head office did not have any sustainability testing at the time to determine if the action plan was properly implemented.

The hearing panel noted that CIBC has since made changes to its compliance policies, procedures and its management structure, including the implementation of sustainability testing to ensure follow-up and implementation on action plans.

SELECTED CASE HIGHLIGHTS

National Bank Financial Inc. (Settlement)

- Montreal, Quebec
- Supervision: DMR 38.1 and DMR 2500
- **Fine of \$110,000 | Costs of \$10,000**

National Bank Financial Inc. (NBF) discovered that several clients of one of its Registered Representatives held positions in leveraged exchange-traded funds (leveraged ETFs) which did not coincide with their investment objectives or investment knowledge. However, NBF failed to take reasonable measures to ensure that this situation was corrected in a timely fashion.

NBF sent a warning letter to the Registered Representative, advising that 75 of his clients holding leveraged ETFs did not meet the required profile. He responded that he would gradually proceed with a reduction of the positions concerned but did not provide fixed deadlines or specific objectives. NBF sent a second warning letter 18 months later, imposing a deadline for the Registered Representative. However, when the deadline expired, the issue was still not resolved for 29 clients.

It was not until two years after the first warning letter to the Registered Representative that NBF terminated his employment and sent a letter to his clients to inform them of the risks associated with the products.

The hearing panel noted that NBF's misconduct "concerns inadequate supervision, not the absence of supervision," and that NBF "took measures to ensure that its representatives had a sufficient and adequate level of knowledge of the features and risks" in leveraged ETFs. The hearing panel also noted that NBF had a disciplinary history in the matter of supervision.

FAILINGS OF SENIOR OFFICERS

Brian Michael Sutton (Ontario Securities Commission Hearing and Review)

- Toronto, Ontario – First Leaside Securities Inc.
- Obligations of the CFO: DMR 38.6
- **Three Year Prohibition on Approval as CFO |
Fine of \$50,000 | Reprimand | Costs of \$50,000**

Brian Michael Sutton was a part-time CFO for First Leaside Securities Inc. (FLSI). One of Sutton's responsibilities was to ensure that certain unlisted securities distributed by FLSI were properly priced on client account statements. Between September 2009 and October 2011, Sutton failed to take reasonable steps to determine an accurate price for the securities, and instead allowed the securities to be continuously priced at \$1/unit. Following a hearing and review of an initial IROC hearing panel decision, the Ontario Securities Commission (OSC) confirmed that Sutton contravened IROC Dealer Member Rule 38.6(c).

The Commission determined that a true active market in a security requires, at a minimum, three factors: independence, recency and frequency. The Commission concluded that the trading in the units did not satisfy any of these factors. First, the trading was not sufficiently independent due to the involvement of the FLSI directing mind in setting and supporting the \$1/unit price of the securities. Secondly, the trading history of the securities showed that the trading was sporadic, at best, over the material time, including no trading in the securities at all for some months, and a limited number of transactions during other months.

The Commission also considered other factors that Sutton claimed supported his conclusion that the \$1/unit price was reasonable, including the yield on the securities, the value of the underlying real estate assets, the available financial statements, and two reports prepared by independent accounting firms. The Commission found that none of these ought to have given him any comfort. The Commission concluded that Sutton's approach to pricing fell outside a reasonable range of approaches.

M Partners Inc. and Steven Isenberg (Settlement)

- Toronto, Ontario
- Trading Supervision and Audit Trail: UMIR 7.1 and 10.11(1)
- Supervision and Promotion of Compliance: DMR 38.5(c)
- **M Partners: Fine of \$120,000 | Costs of \$10,000**
- **Isenberg: Fine of \$70,000**

Steven Isenberg was the Ultimate Designated Person (UDP) of M Partners. M Partners did not use electronic trade ticketing. Rather, manual trade tickets were filled out with specific information, and time-stamped, in order to meet IIROC's regulations and M Partners' own policies. An IIROC audit revealed significant deficiencies in M Partners' tickets, including missing tickets, tickets without a time stamp, tickets that did not identify the client name and account, and illegible or missing ticket information. Many of the deficiencies were in relation to Isenberg's own trades. The failure to maintain a proper audit trail created uncertainty regarding ownership as well as the potential for improper allocation and breaches of client priority.

IIROC disciplined M Partners for the same conduct in 2015. Isenberg was aware of the 2015 disciplinary action and received quarterly reports from his CFO detailing concerns with audit trail practices. Despite being aware of past and present concerns about M Partners' compliance with audit trail requirements, Isenberg failed to ensure that M Partners followed the IIROC requirements as well as M Partners' own policies and procedures, and failed to do so with respect to his own trading.

The firm acknowledged that efforts to remediate were inadequate, and retained a consultant to do a comprehensive review of its compliance program and implement electronic ticketing.

SELECTED CASE HIGHLIGHTS

MARKET MANIPULATION

Aidin Sadeghi (Disciplinary Hearing)

- Toronto, Ontario – W.D. Latimer Co. Limited
- Market Manipulation by “Spoofing” in the Pre-Opening: UMIR 2.2
- **Suspension of Access to IIROC-Regulated Marketplaces for Five years | Fine of \$25,000 | Disgorgement of Profits of \$9,111.75 | Costs of \$25,000**

Over a two-month period, Aidin Sadeghi engaged in a form of “spoofing” in the pre-opening session on the TSX. His order entry occurred on a daily basis and followed a consistent pattern of entering numerous market orders in small increments, so he could observe the effect on the Calculated Opening Price (the “COP”). Sadeghi frequently cancelled his market orders and observed the change in the COP resulting from those cancellations. This allowed him to size the market and gain information that potentially allowed him to trade advantageously. IIROC determined his pattern of order entry activity was non-*bona fide*.

The hearing panel found that “market participants have a right to a fair, open and transparent marketplace in the pre-opening session and that any activity which seeks to undermine such a marketplace should be strictly curtailed”. The hearing panel further noted that UMIR 2.2 must be “sedulously enforced”.

In determining sanctions, the hearing panel found that Sadeghi’s conduct “was willful and not an error in judgment. He deliberately set out to gain an advantage over other market participants. He knew his actions were affecting the COP. He alone knew of his intention to cancel Market Orders at the last minute. His conduct deleteriously affected the integrity of the marketplace and caused harm or potential harm to investors.”

Robert Sole (Disciplinary Hearing)

- Toronto, Ontario – W.D. Latimer Co. Limited
- Improper Access to IIROC-Regulated Marketplaces: DMR 29.1 and/or Consolidated Rule 1400
- Outside Business Activity: DMR 18.14
- Failure to Cooperate, Consolidated Rule 8104
- **Permanent Ban | Fine of \$80,000 | Costs of \$10,000**

Robert Sole was a proprietary trader at W.D. Latimer. In July 2016, Sole admitted to engaging in manipulative and deceptive activities in a settlement agreement and agreed to a one-month suspension of access to IIROC-regulated marketplaces. While suspended and without notifying his firm, he accepted a job as a trader at a proprietary trading firm that had direct electronic access to IIROC-regulated marketplaces. Through that firm, Sole accessed IIROC-regulated marketplaces and traded on those marketplaces while suspended. He refused to attend an interview requested by Enforcement staff.

The hearing panel found that Sole contravened “fundamental principles of securities regulation, namely, the protection of market integrity and the duty to cooperate with the regulator.” The hearing panel further stated that Sole “willfully disregarded the terms of the settlement agreement arising out of his prior market manipulations. He exacerbated his offence by engaging in the outside business activities, without the knowledge of his employer, to wrongfully access the IIROC-regulated marketplace while under suspension. He brazenly flaunted the Rules governing his professional activities, and then failed to cooperate with the ensuing investigation as required by the Rules.”

IMPROPER SALES INCENTIVES

Sam Deones Panzures (Settlement)

- Toronto, Ontario – HollisWealth (Operated by Scotia Capital Inc. and subsequently acquired by Industrial Alliance Securities Inc.)
- Sales Incentives: DMR 29.1 and 29.12
- **Fine of \$60,000 | Costs of \$5,000**

Sam Deones Panzures accepted incentives or benefits that far exceeded a minimal or reasonable value and that were not for normal course business promotion activities.

Panzures requested and accepted 32 tickets to entertainment events from representatives of mutual fund companies, Sentry Investments Inc. (Sentry) and Dynamic Funds (Dynamic). Over the course of two years, the total cost of the tickets was in excess of \$32,000.

Panzures, along with two others, had a book of business comprising more than 850 households and approximately \$400 million in assets under management. Approximately 62-69% of the client assets were in Sentry and Dynamic mutual funds. Panzures had historically held the majority of client assets, as well as his own assets, in the mutual funds from these companies.

When the UDP for Sentry was investigated by the OSC for this issue, he visited Panzures’ home and requested payment for the tickets. Panzures wrote a cheque to the UDP personally and backdated at the UDP’s request. Sentry and its UDP accepted a separate settlement with the OSC relating to this matter.

ENFORCEMENT PRIORITIES

ENFORCEMENT'S STRATEGIC INITIATIVES

As we entered our final year of IIROC's three-year Strategic Plan, Enforcement continued to actively work on its key initiatives and made significant progress in achieving its goals.

Enforcement's strategic focus is to pursue credible enforcement action in a timely, responsible and robust manner using a variety of tools and remedies. To advance this goal, we focused on two key initiatives:

1. Strengthening IIROC's legal authority and protections by acquiring:
 - a. legal authority to collect fines;
 - b. additional authority to strengthen our ability to collect and present evidence; and
 - c. statutory immunity for IIROC and its personnel when acting in the public interest.
2. Developing alternative forms of disciplinary action.

Enforcement successfully acquired new authorities and protections in several provinces and territories. To date, we have obtained the full enforcement toolkit from four provinces (Alberta, Quebec, PEI and Nova Scotia) and made significant progress in several other jurisdictions. In addition, we actively engaged with our stakeholders to consider two proposed alternative programs that would make IIROC's enforcement more flexible and focus our resources on the most serious matters. We anticipate making changes to our proposals and seeking further consultation in the coming year.

Earlier in the year, we completed another initiative, seeking to improve our internal compliance referral process. IIROC's three compliance departments (Business Conduct Compliance, Financial & Operations Compliance and Trading Conduct Compliance) are the source of some of our most significant prosecutions. These cases often deal with systemic firm issues, which can potentially cause significant harm to investors. For this reason, the timely identification, referral and investigation of such matters is of paramount importance. After an extensive review, we developed and implemented a new protocol in Spring 2018, which will improve our ability to promptly identify firm deficiencies that warrant swift and appropriate Enforcement action.

1. Strengthening IIROC's Legal Authority

(a) Authority to Collect Fines

IIROC continues to seek legal authority to enforce its fines in every jurisdiction across Canada. This will send a strong deterrent message by holding those who break the rules accountable and subjecting them to penalties that can be collected by IIROC. This authority enhances the credibility and integrity of IIROC's disciplinary process, including the sanctions imposed.

While firms and individuals who wish to remain IIROC Dealer Members or registrants must pay their fines, many choose to avoid payment by simply leaving the securities industry and abandoning their registration. Although IIROC generally collects all fines against Dealer Members, it is more challenging to collect fines from individuals. In 2018, IIROC collected approximately 15% per cent of penalties levied against individuals, nationally.

IIROC was extremely successful in 2018, obtaining legal authority to pursue fine collection in the courts in six additional jurisdictions (see map on page 22 for full details). In May 2019, Saskatchewan's Bill 159 – an Act to Amend the Securities Act – received Royal Assent. IIROC has authority to collect fines across the country, with only two provinces (New Brunswick and Newfoundland and Labrador) yet to introduce legislation.

IIROC is committed to ensuring wrongdoers are accountable for their actions, which includes making every reasonable effort to collect penalties imposed against them. A disciplined party's failure to pay a fine will result in IIROC taking immediate steps for suspension until payment is made. Where we are now able to, we are taking active steps to register cases in the courts to pursue collection. IIROC also publishes online an Unpaid Fines Report, which lists individual registrants who, since 2008, have failed to pay fines, disbursement, and/or costs imposed resulting from disciplinary action¹.

(b) Powers to Strengthen Evidence Collection

IIROC has taken steps to seek additional authority that would allow us to compel evidence during our disciplinary investigations and hearings. Under our current rules and jurisdiction, IIROC can compel its individual registrants and Dealer Members to cooperate with our investigations and prosecutions. Without legislative amendments to relevant securities legislation, IIROC has no ability to obtain the cooperation of individuals and entities not regulated by us, even where they may have relevant evidence. Unfortunately, this imposes limitations on our ability to fully investigate certain cases and obtain the best evidence.

Prior to 2018, only two provinces had granted IIROC the legislative authority to collect evidence at the investigative and/or prosecution stage: In Alberta, we had authority to collect evidence at both the investigative and prosecution stages; and, in Prince Edward Island (PEI), we had authority at the prosecution stage. This past year, however, we received additional authority through legislative amendments from three provinces and three territories (see map on page 22 for further details).

IIROC has already started to use these powers and we have seen concrete results in our enforcement efforts. We will continue to reach out to all other CSA jurisdictions and their governments to obtain similar authority at both the investigation and hearing stages of the Enforcement disciplinary process. This will better arm us with the tools necessary for IIROC to provide a consistent level of investor protection from coast-to-coast.

¹ Please note that the report intends to enhance transparency relating to IIROC's collection of fines and other monetary sanctions. It is not meant to be a list of individuals currently indebted to IIROC. Accordingly, the report may include the names of individuals who received a bankruptcy discharge subsequent to the order.

ENFORCEMENT PRIORITIES

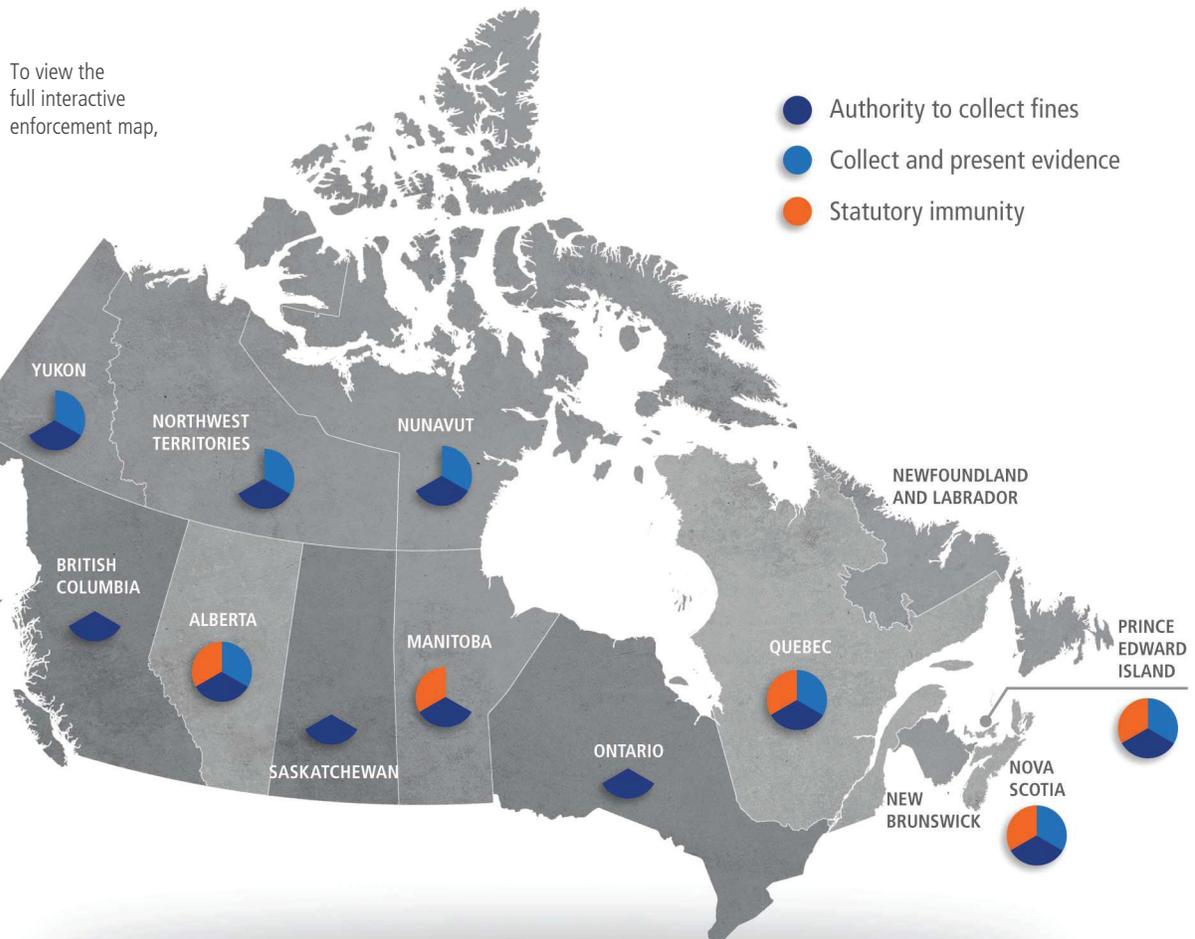
(c) Statutory Immunity

IIROC is seeking statutory immunity for good faith performance of all its regulatory functions, including Enforcement, as part of its Recognition Orders set out by members of the CSA. While there are limited common law protections, statutory immunity would ensure that IIROC and its employees have the same protection provided to the provincial securities commissions and other regulatory bodies. We strongly believe that this immunity is necessary to allow us to take appropriate regulatory action in the public interest without fear of reprisal.

Alberta was the first province to grant IIROC this protection in June 2017. In 2018, four additional provinces provided us with similar statutory immunity protection (see map below for further details).

Enforcement’s current legal authority and protections

IIROC has made significant progress in the following jurisdictions to strengthen investor protection:



2. Alternative Forms of Disciplinary Action

It is important for Enforcement to be both strong and fair in the execution of its mandate. This requires us to have the right complement of tools that ensure a properly tailored enforcement response that is firm, timely and proportionate to the circumstances. As part of our three-year Strategic Plan, we are considering alternative forms of disciplinary action that will provide greater flexibility and result in a more responsive Enforcement department.

On February 22, 2018, IIROC published a Notice² requesting comments on two proposals:

- i. **A Minor Contravention Program (“MCP”)** where an Approved Person or Dealer Member would agree to a fixed sanction for a minor rule contravention (\$2,500 for individuals and \$5,000 for firms). While the firm or individual would be required to admit a breach of IIROC rules, it would not form part of a formal disciplinary record nor would we publish their names. This approach would avoid the time and expense of a full disciplinary hearing while ensuring that minor offences are dealt with appropriately.
- ii. **Early Resolution Offers** would facilitate settlement of cases at an earlier point in the enforcement process, once sufficient facts are known and certain conditions are present. This program seeks to encourage early cooperation and provides an incentive for the firms or individuals involved to take corrective action and compensate any investors harmed. An Early Resolution Offer will represent staff’s best offer to settle a case by way of a reduced monetary penalty for a firm or individual who comes forward and enters into a settlement agreement quickly, with minimal negotiation.

IIROC received nine comment letters from Dealer Member firms, industry and investor groups and lawyers. We invited those who provided written comments to attend an in-person roundtable session to further discuss and expand upon their comments. We held two sessions in Toronto on July 17 and 23, 2018, which yielded meaningful and insightful commentary from all participants.

Additionally, IIROC consulted directly with approximately 1,000 Canadian investors through an on-line survey, which draws from a pool of 10,000 Canadian investors. A majority of investors surveyed generally supported IIROC’s proposals.

Details of both the written comments received and the results of the investor survey are published on IIROC’s website.

As a result of the feedback received, we are considering further amendments to our proposal. In April 2019, we published a further Request for Comments with more detail relating to rule amendments.

²Notice 18-0045 – Request for Comment – Enforcement Alternative Forms of Disciplinary Action

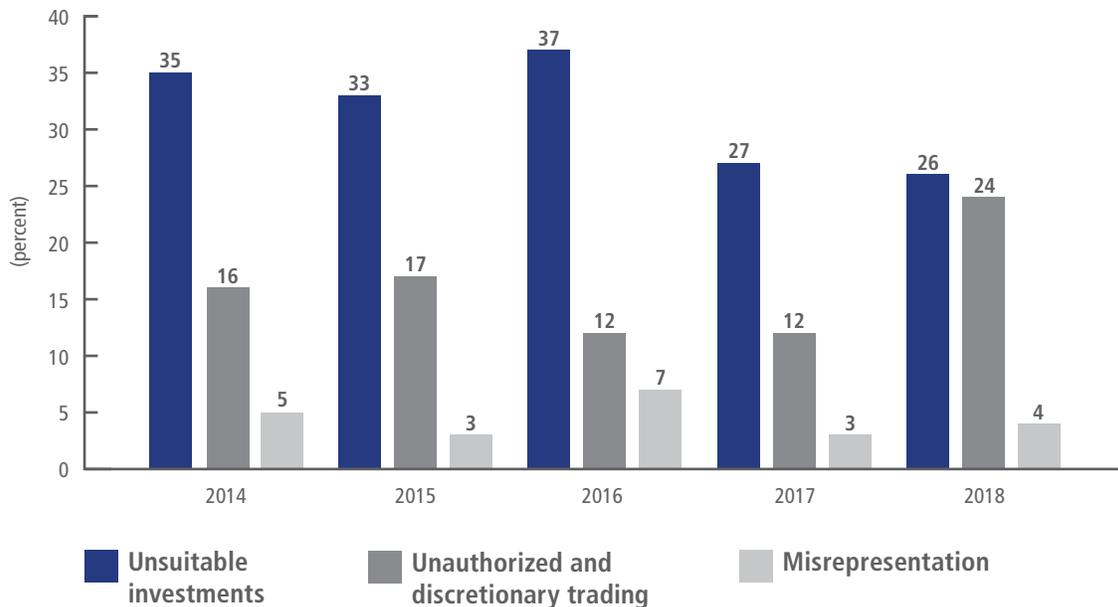
ENFORCEMENT STATISTICS

Complaints

Sources of Complaints Received by IIROC Enforcement

SOURCE	2018	2017	2016	2015	2014
Public	158	197	198	209	222
ComSet	866	903	1,207	1,076	1,058
Internal (from other IIROC departments)	40	41	32	43	53
Other SROs and Commissions	23	18	20	11	12
Other (media, Dealer Member firms and whistleblowers)	2	4	2	2	5
TOTAL	1,089	1,163	1,459	1,341	1,350

Most Common Complaints Received by IIROC and Opened by Case Assessment



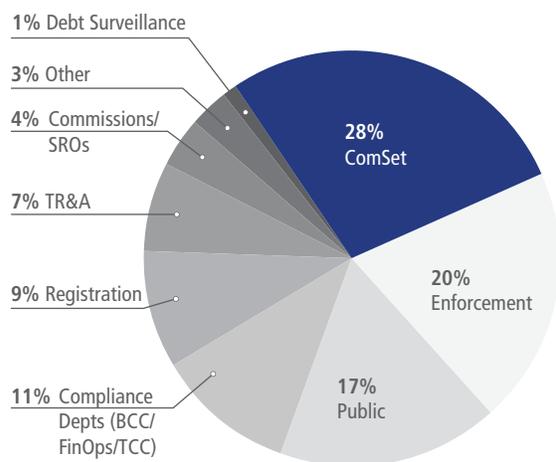
24

Investigations

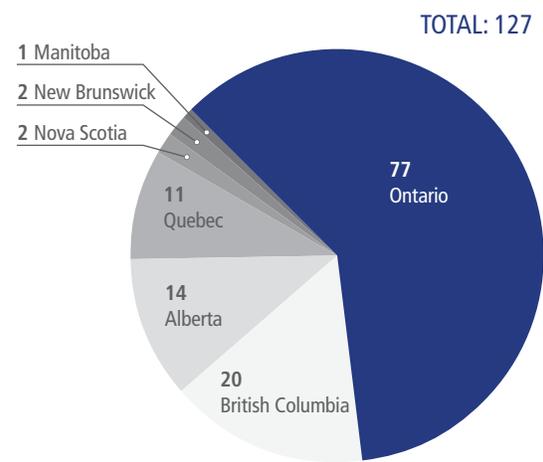
Investigations Completed

	2018	2017	2016	2015	2014
Number of Investigations completed	127	127	138	124	174
Percentage of files referred to Prosecutions	40%	46%	46%	57%	56%

Investigations – by Source



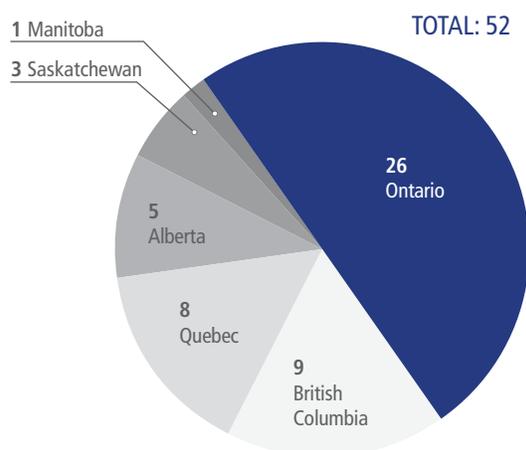
Investigations – by Province



Prosecutions

Prosecutions – by Province

Prosecutions refer to completed prosecutions where an IIROC hearing panel, securities commission or court has made a final decision including any sanction ordered. Any decisions under appeal are not included.



Appeals

In general, either a disciplined individual or IIROC staff can appeal IIROC disciplinary decisions to the relevant provincial/territorial securities commission or applicable reviewing body. An appeal will involve a review of the merits of the liability and/or penalty decision. Where an appeal is dismissed, this means that the original IIROC decision remains in effect including the penalties imposed. In 2018, appeals were launched, argued and/or concluded in a number of matters including:

Robert Crandall (New Brunswick)

Appeal ongoing

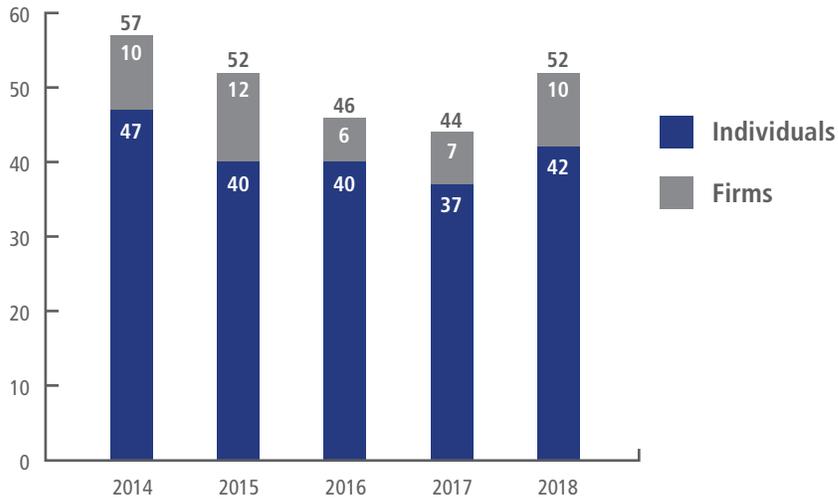
Ali Reza Sultani (Quebec)

Appeal granted in part. Allegations dismissed.

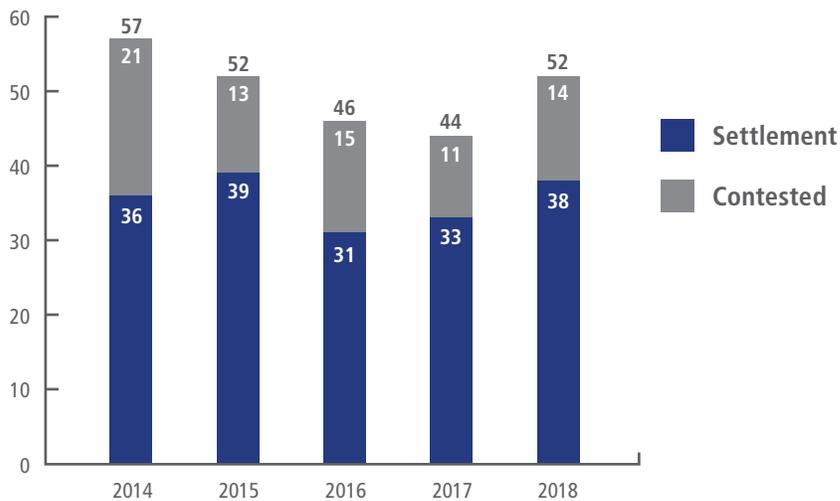
Alberto Tassone (British Columbia)

Appeal granted in part. Matter re-submitted to IIROC hearing panel.

Prosecutions – by Respondent Type



Prosecutions – by Hearing Type*



*see Appendix C for description of Hearing types

ENFORCEMENT STATISTICS

Prosecutions

Prosecutions – by Regulatory Violation

INDIVIDUALS DISCIPLINED	2018	2017	2016	2015	2014
Suitability / Due Diligence / Handling of Client Accounts	17	20	19	19	18
Inappropriate personal financial dealings	12	7	7	6	5
Misappropriation	0	0	4	1	1
Misrepresentation	1	1	3	5	8
Discretionary trading	5	3	10	9	5
Forgery	0	3	0	5	4
Unauthorized trading	4	3	7	6	10
Manipulation and deceptive trading	2	1	3	1	1
Outside business activities	4	1	4	2	3
Supervision	4	4	7	5	6
Gatekeeper	0	0	0	4	2
Failure to cooperate	3	3	5	2	5
Trading conflict of interest	2	2	0	2	0
Off-book transactions	2	3	1	0	2
Trading without appropriate registration	1	0	0	0	0
Fraud	0	0	0	0	0
Undisclosed conflict of interest	3	1	1	1	0
Inadequate books and records	1	1	0	0	2
Other	2	0	0	0	0

FIRMS DISCIPLINED	2018	2017	2016	2015	2014
Supervision	7	6	4	8	5
Protective Order / Firm Winding Down	2	1	1	3	4
Failure to handle client accounts	1	0	1	0	0
Inadequate books and records	1	0	0	2	2
Internal controls	2	0	1	2	1
Capital deficiency	0	0	1	2	0

Sanctions Imposed

FIRMS	2018	2017	2016	2015	2014
Decisions	10	7	6	12	10
Fines	\$860,000	\$830,000	\$360,000	\$1,495,000	\$224,000
Costs	\$55,500	\$78,500	\$65,000	\$97,500	\$27,000
Disgorgement	\$0	\$100,000	\$0	\$0	\$0
Total	\$915,500	\$1,008,500	\$425,000	\$1,592,500	\$251,000
Permanent suspension	0	1	0	3	2
Termination	2	0	2	0	2
INDIVIDUALS					
Decisions	42	37	40	40	47
Fines	\$2,770,000	\$2,265,000	\$2,684,000	\$2,283,000	\$3,035,500
Costs	\$340,000	\$366,129	\$412,000	\$337,500	\$366,000
Disgorgement	\$133,712	\$778,962	\$24,084	\$331,569	\$20,637
Total	\$3,243,712	\$3,410,091	\$3,120,084	\$2,952,069	\$3,422,137
Suspension	21	16	20	26	21
Permanent bar	5	5	6	5	8
Conditions	21	22	21	23	23

Fine Collection Rates

The chart below sets out the percentage collected to date of fines assessed in a given year. Assessed fines do not include fines imposed during the year for cases that have been appealed or are still within the time period to appeal.

While we typically collect 100 percent of fines from firms, there are circumstances where firms do not pay such as insolvency issues and/or where they are suspended by IIROC. Firms that do not pay fines are no longer IIROC members in good standing.

	2018	2017	2016	2015	2014
Individuals	14.7%	16.2%	8.3%	15.8%	21.3%
Firms	85.3%	91.2%	100%	84%	100%

APPENDIX A

IROC Disciplinary Actions January 1 to December 31, 2018

INDIVIDUALS

Discretionary Trading

Ula Hartner
Adam William Woodward
Jean-Claude Lemire
Jean-Louis Trudeau
Edward Peter Bodnarchuk

Suitability / Due Diligence / Handling of Client

Accounts

Nicholas Karakolis
Vance Virgil Hoshizaki
Graeme Robert Kirkland
Ula Hartner
Adam William Woodward
Steven Fred Bodon
Duncan Roy
Sherry Jean Dalla-Longa
Darryl Joseph Yasinowski
Kenneth Edward Smith
Jean-Claude Lemire
David Durno
Shafique Hirani
Edward Peter Bodnarchuk
John Manuel Reyes
Paul Michael Karpiuk
Rodney Joseph Nieswandt

Failure to Cooperate

Kenneth Edward Smith
Robert Edward Sole
Rodney Joseph Nieswandt

Inadequate Books and Records

Robert Trickey

Inappropriate Personal Financial Dealings

Vance Virgil Hoshizaki
Adam William Woodward

Donald Willson Bridgman
Martin Matthews
Arnold Francis
Sherry Jean Dalla-Longa
Kenneth Edward Smith
Sam Deones Panzures
Troy Robert Nagy
John Manuel Reyes
Rodney Joseph Nieswandt
Richard Barkwell

Manipulation and Deceptive Trading

Aidin Sadeghi
Raphael Vermette

Misrepresentation

Donald Willson Bridgman

Off-Book Transactions

Earl Marek
Kenneth Edward Smith

Other

Michael Ballanger
Brian Michael Sutton

Outside Business Activities

Vance Virgil Hoshizaki
Kenneth Edward Smith
Robert Edward Sole
Pei-Ying Patty Chen

Supervision

Sean Conacher
Steven Gary Isenberg
Alexander George Mitchell
Steven Henry Brophy

Trading Conflict of Interest

Graeme Robert Kirkland
Sean St-John

Trading Without Appropriate Registration

Robert Edward Sole

Unauthorized Trading

Michael Bazilinsky
Francois Cote
Jean-Rock Cote
Rodney Joseph Nieswandt

Undisclosed Conflict of Interest

Graeme Robert Kirkland
David Durno
Edward Peter Bodnarchuk

FIRMS

Protective Order / Firm Winding Down

Northern Securities Inc.
All Group Financial Services Inc.

Failure to Handle Client Accounts

BBS Securities Inc.

Inadequate Books and Records

M Partners Inc.

Internal Controls

Worldsource Securities Inc.
Raymond James Ltd.

Supervision

National Bank Financial Inc.
M Partners Inc.
CIBC World Markets Inc.
TD Waterhouse Canada Inc.
Worldsource Securities Inc.
Raymond James Ltd.

APPENDIX B

Enforcement Information Sources

Enforcement cases are based on information drawn from a variety of internal and external sources.

INTERNAL SOURCES

Registration Department:

On occasion, the circumstances surrounding the termination of an individual registrant requires further investigation.

Compliance Departments [Business Conduct Compliance (BCC), Financial & Operations Compliance (FinOps), and Trading Conduct and Compliance (TCC)]:

Issues and deficiencies noted in compliance examination reports sometimes form the basis for some of Enforcement's most significant disciplinary cases.

Trading Review & Analysis (TR&A) / Market Surveillance:

The TR&A and Market Surveillance Departments oversee all equity and debt trading on Canadian marketplaces and serve as Enforcement's primary source of market-related information and enforcement referrals.

Complaints & Inquiries Team (C&I):

The C&I team is the primary contact for investor inquiries and complaints. Where alleged regulatory violations are suspected, C&I refers the majority of the complaints it receives to Enforcement for further assessment. C&I can be reached by phone (1-877-442-4322), email (InvestorInquiries@iiroc.ca) or by filing an online complaint form (www.iiroc.ca).

EXTERNAL SOURCES

ComSet Reports

IIROC rules require Dealer Members to inform IIROC when certain events occur by using IIROC's *Complaints and Settlement Reporting System (ComSet)*. These include written client complaints received by a Dealer Member; criminal charges against a Dealer Member or any of its individual registrants; or a securities-related civil claim brought by a client. These reportable events represent Enforcement's primary source of external enforcement-related information, and the most significant source of enforcement cases.

Outside Agencies

Enforcement receives referrals from Canadian provincial securities regulators, foreign securities regulatory bodies and other public agencies, including law enforcement officials.

IIROC's Whistleblower Service

IIROC operates a Whistleblower Service designed to receive, evaluate and take prompt and effective action on information based on first-hand knowledge or tangible evidence of potential systemic wrongdoing, securities fraud and/or unethical behaviour by IIROC-regulated individuals or firms. The Whistleblower Service can be reached by phone (1-866-211-9001) or email (whistleblower@iiroc.ca).

APPENDIX C

Types of Disciplinary Proceedings

Following the completion of an investigation, Enforcement staff will assess the evidence collected and decide whether to prosecute a Dealer Member or individual registrant for a breach of IIROC rules. When the decision is made to prosecute, formal disciplinary action will be initiated against the Dealer Member or individual registrant (both referred to as the Respondent in a disciplinary proceeding).

Formal disciplinary action will take the form of either a contested hearing or a settlement hearing.

CONTESTED HEARINGS

Where the Respondent does not admit to the alleged violation of IIROC rules, a contested hearing is held. Staff must prove the allegations set out in the Notice of Hearing – the formal document that initiates disciplinary action. Similar to traditional court proceedings, an IIROC hearing involves staff presenting documentary evidence and oral evidence, through witnesses, to make its case. The Respondent has the right to challenge IIROC's case by cross-examining witnesses and presenting evidence.

The hearing panel, which is normally comprised of one former judge and two active or retired industry members, decides whether IIROC has proven its case against the Respondent and if so, determines the appropriate penalty.

While IIROC generally does not have the legal authority to compel witnesses or Respondents to attend disciplinary hearings, a Respondent's failure to attend a hearing does not affect Enforcement's ability to proceed with the hearing. In these cases, the hearing will proceed in the Respondent's absence and the hearing panel may accept the allegations as proven without calling any formal evidence.

SETTLEMENT HEARINGS

Settlement hearings are held when staff and the Respondent agree, in writing, on the rule(s) violated by the Respondent, the underlying facts and the penalties to be imposed on the Respondent for the agreed violations. The parties must present the agreement to the hearing panel and explain why the panel should accept it. The panel may accept or reject the settlement agreement.

Like many other professional regulatory bodies, the majority of IIROC's disciplinary matters are resolved by way of settlements.

Enforcement also has the ability to initiate two other types of proceedings: Protective Order Applications and Temporary Order Applications.

PROTECTIVE ORDER APPLICATIONS

Generally speaking, a protective order application is an emergency proceeding that permits Enforcement staff to quickly initiate a proceeding against a Respondent. The purpose of the proceeding is to protect investors in circumstances where the Respondent is not able to continue in business without contravening IIROC's rules. Typically, such circumstances include:

- Bankruptcy;
- Financial or operating difficulty of a Dealer Member; and
- Criminal charges laid against the Dealer Member or individual registrant.

At the conclusion of a protective order proceeding, the hearing panel has the authority to impose a variety of sanctions on the Respondent, similar to those available in the regular disciplinary process. Examples of potential sanctions include:

- The suspension of IIROC membership;
- A requirement to immediately cease dealing with the public; and
- A requirement to preserve books and records for a specified period of time.

TEMPORARY ORDER APPLICATIONS

Temporary order applications are another form of emergency proceeding, and are made when Enforcement staff believe that the length of time required to convene a disciplinary hearing could be contrary to the public interest. A temporary order proceeding can be brought without prior notice to the Respondent. The order can either suspend the Respondent's registration with IIROC or impose terms and conditions on that registration. Temporary orders last for 15 days, after which time they can be further extended by a hearing panel or by a securities commission.

GLOSSARY OF TERMS

ACCREDITED INVESTORS

A defined group of investors who may purchase securities that are not subject to the regulatory requirement to publish and distribute a product prospectus. The provincial securities commissions determine the criteria that define an accredited investor. This type of investor includes certain institutional investors and other individuals who meet specific financial criteria, such as income and net worth.

COMSET (COMPLAINTS AND SETTLEMENT REPORTING SYSTEM)

IIROC requires registered firms to report client complaints and disciplinary actions including internal investigations, denial of registration and settlements; and civil, criminal or regulatory action against the firm or its registered employees. This information is reported through IIROC's computerized Complaints and Settlement Reporting System.

COP (CALCULATED OPENING PRICE)

Indicates the price at which a security will begin trading at the opening of a market. The COP is calculated based upon the orders to buy and sell a security that have been entered for the security and is generally determined by the price at which the most shares will execute at the open of the market.

CPH (THE CONDUCT AND PRACTICES HANDBOOK COURSE)

A course offered by the Canadian Securities Institute. Individuals seeking to become a registered representative or investment representative with IIROC must pass this course in order to meet IIROC's proficiency requirements. The course covers the rules, policies and by-laws of the securities commissions and SROs, in addition to the standards of conduct and practices when dealing with client accounts, special transactions and products.

CSA (CANADIAN SECURITIES ADMINISTRATORS)

The CSA is the council of 10 provincial and three territorial securities regulators in Canada. The mission of the CSA is to facilitate Canada's securities regulatory system by protecting investors from unfair fraudulent practices and by promoting fair, efficient and transparent markets through the development of harmonized securities regulations, policies and practices.

ETFs (EXCHANGE-TRADED FUNDS)

An investment fund that holds a group of investments such as stocks, bonds, commodities that trades on a stock exchange like a stock. ETFs generally track an index, such as a stock index like the S&P 500. Leveraged ETFs aim to deliver multiples of the performance of the index they track. Some leveraged ETFs are "inverse" or "short" funds, meaning that they seek to deliver the opposite of the performance of the index they track.

KYC (KNOW YOUR CLIENT)

A standard form in the investment industry that ensures investment advisors know detailed information about their clients' risk tolerance, investment knowledge and financial position. KYC forms protect both clients and investment advisors. Clients are protected by having their investment advisor know what investments best suit their personal situations. Investment advisors are protected by knowing what they can and cannot include in their client's portfolio.

MFDA (MUTUAL FUND DEALERS ASSOCIATION)

The MFDA regulates the operations, standards of practice and business conduct of its members and their representatives. Its mandate is to enhance investor protection and strengthen public confidence in the Canadian mutual fund industry.

NCAF (NEW CLIENT ACCOUNT FORM)

Securities firms and registered representatives are required to have new clients complete this form to ensure the firm and the representative are aware of the client's financial position and investment objectives, so that the firm and the representative can assess the suitability of their advice.

NEW ISSUE

A security that is offered to investors for the first time and did not previously exist or trade on any exchange.

SPOOFING/LAYERING

Both are manipulative and deceptive trading strategies. Spoofing is a practice using limit orders without the intent to execute on them, in order to manipulate prices. Some spoofing strategies relate to the open or close of regular market hours that involve distorting prices through the entry of non-*bona fide* orders, checking for the presence of an "iceberg" order, affecting a calculated opening price and/or aggressive trading activity near the open or close for an improper purpose. Layering is a strategy, which initiates a series of orders and trades in an attempt to ignite a rapid price movement either up or down and induce others to trade at artificially high or low prices. An example is a "layering" strategy whereby a market participant places a *bona fide* order on one side of the market and simultaneously "layers" the book with non-*bona fide* orders on the other side of the market to bait other market participants to react to the non-*bona fide* orders and trade with the *bona fide* order.

GLOSSARY OF TERMS

SRO (SELF-REGULATORY ORGANIZATION)

SRO refers to an organization that sets standards, monitors members for compliance with those standards, and takes appropriate action when those standards are not met.

TIER 1 AND TIER 2 REVIEWS

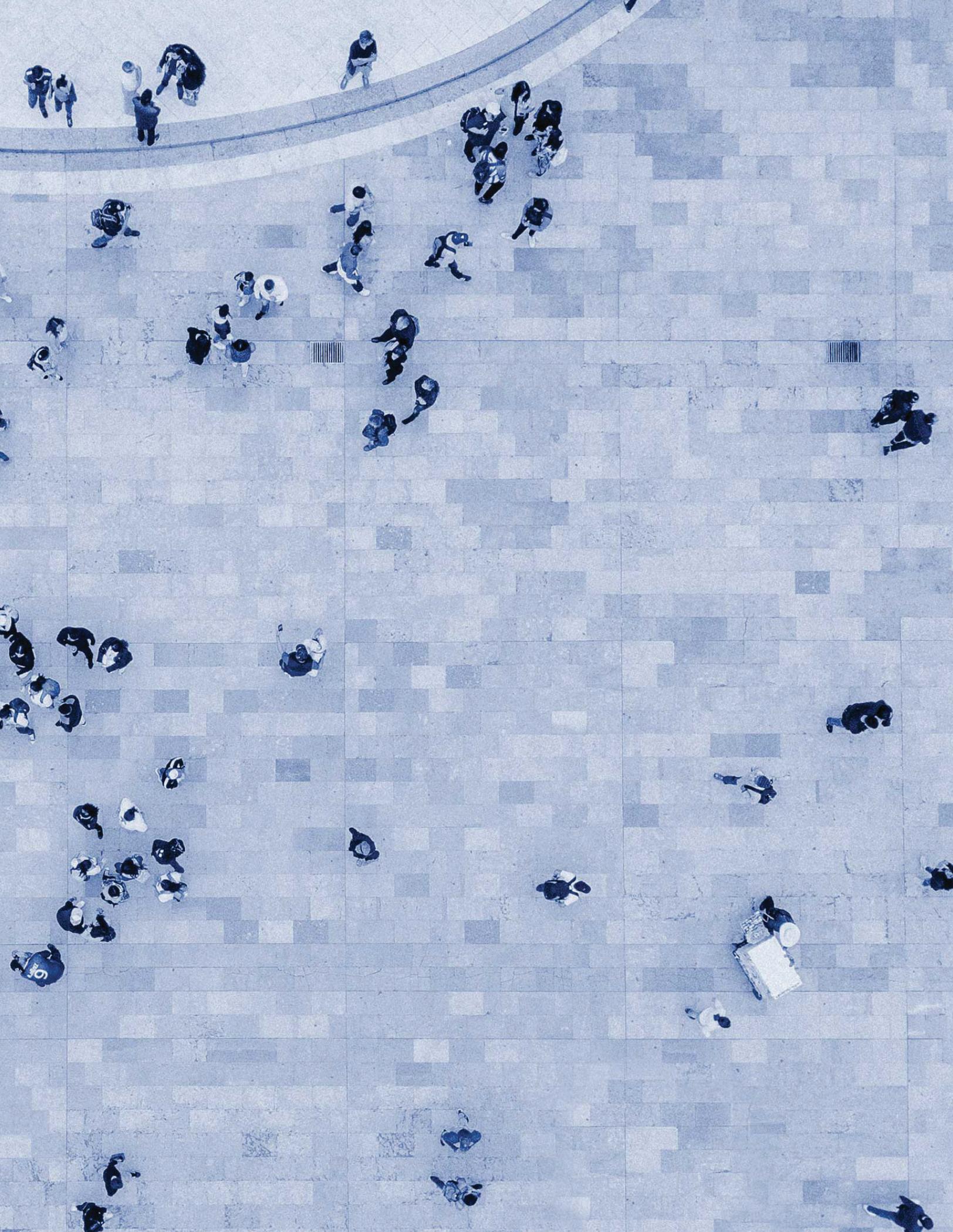
These reviews form part of a two-tier supervision system of post-trade activity reviews in client accounts. Tier 1 reviews are normally conducted by a Supervisor at each business location of a Dealer Member. A first-tier review examines the previous day's trading to monitor for questionable/inappropriate activity, such as unsuitable trading, excessive or high-risk trading, conflict of interest, or manipulative or deceptive trading. Tier 2 reviews are normally conducted at the firm's head office or by region. They are generally not at the same depth as first level supervision but should be reasonably designed to identify serious account problems that may have been missed by the first level supervision. Usually, second tier reviews are conducted for accounts that meet certain threshold requirements such as minimum monthly commissions.

UDP (ULTIMATE DESIGNATED PERSON)

The most senior officer of a Dealer Member who is responsible for promoting a culture of compliance and overseeing the effectiveness of the firm's compliance system. Generally, the chief executive officer of the firm must be designated as the UDP. This position is a registration category that requires IIROC approval.

UMIR (UNIVERSAL MARKET INTEGRITY RULES)

Market Regulation Services introduced the Universal Market Integrity Rules as a common set of equity trading rules designed to ensure fairness and maintain investor confidence. The UMIR continues to be IIROC's market integrity rules.



Questions?

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