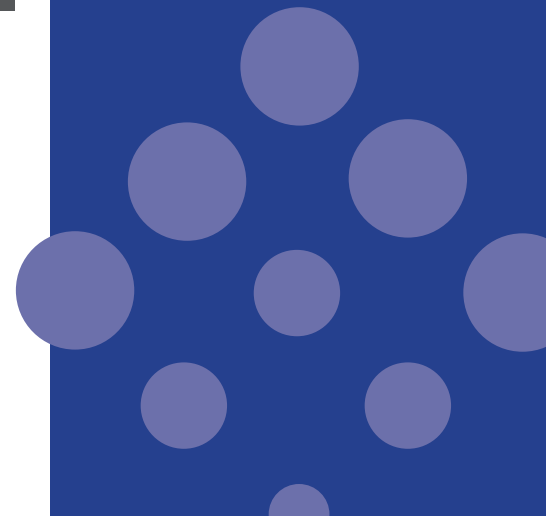


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# Enforcement REPORT

# 2013

*Protecting  
Investors and  
Fostering Fair,  
Efficient and  
Competitive  
Capital Markets  
across Canada*



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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 debt and equity trading on the 13 Canadian marketplaces.

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

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

All investment dealers and Canadian marketplaces overseen by IIROC (Dealer Members and Marketplace Members, respectively) are subject to a rigorous regulatory approval process. Individuals wanting to work at IIROC-regulated firms in specific roles (for example, client-facing advisors and individuals in a supervisory role who have responsibility for ensuring compliance with IIROC rules and other applicable regulations) must apply to IIROC for approval. Individual applicants must satisfy all of IIROC's proficiency requirements and be assessed to be "fit and proper" before they can be registered or approved to work at a Dealer Member (individual registrants).

## Message from IIROC



**Paul R. Riccardi**  
*Senior Vice President,  
Member Regulation*



**Elsa Renzella**  
*Vice President, Enforcement*

We are pleased to present IIROC's second annual Enforcement Report which highlights the results of our efforts to deliver fair, effective and timely enforcement.

As the self-regulatory organization responsible for the oversight of all investment dealers and trading activity on debt and equity marketplaces in Canada, IIROC's mandate is to protect investors and foster fair, efficient and competitive capital markets across Canada. In discharging this mandate, we actively pursue those engaging in unfair, misleading and abusive practices through our enforcement activities.

Our 2013 report provides a high level overview of our enforcement priorities and highlights important cases and decisions involving seniors, unsuitable recommendations, and manipulative and deceptive trading activities.

Over the past year, we've made significant progress on two key policy initiatives. In November, we published a revised version of IIROC's proposed consolidated enforcement rules and published for the first time, a new proposal to revise our existing sanction guidelines. As we move through 2014, we will review and respond to stakeholder comments to both proposals. We believe that once implemented, these policy changes will further strengthen and enhance the effectiveness of our enforcement efforts.

We want to thank our Enforcement staff as well as our IIROC colleagues across the country for their dedication, hard work and ongoing commitment to the protection of the investing public.

Paul Riccardi

Elsa Renzella

## **Our Role**

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

Enforcement plays a key role in pursuing IIROC's mandate to protect investors and foster fair and efficient capital markets across Canada. Enforcement's timely identification, investigation and prosecution of regulatory misconduct, as well as the detection and pre-emptive disruption of potential misconduct, promotes a culture of 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.

### **F** *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.

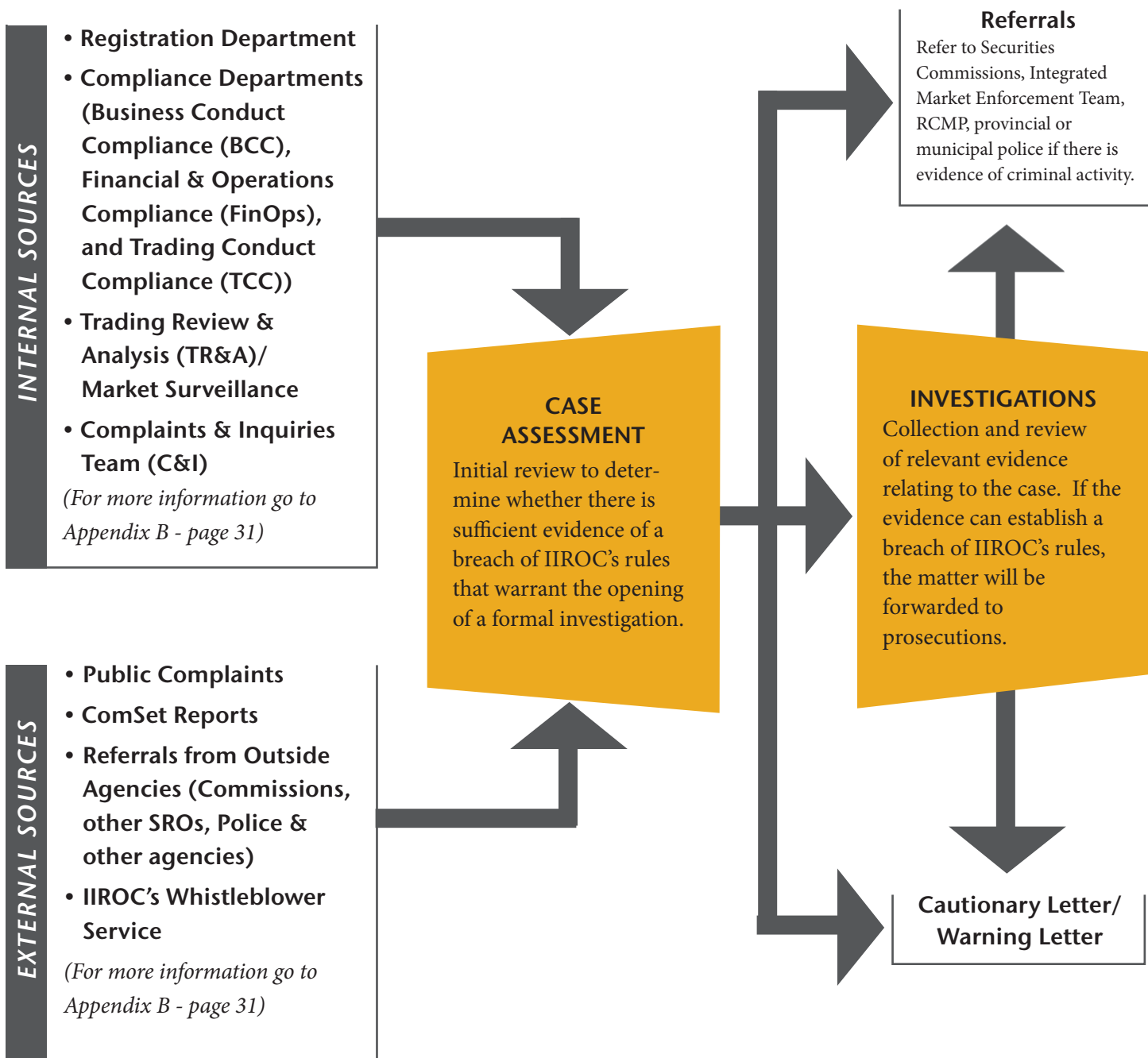
### **E** *FFECTIVE*

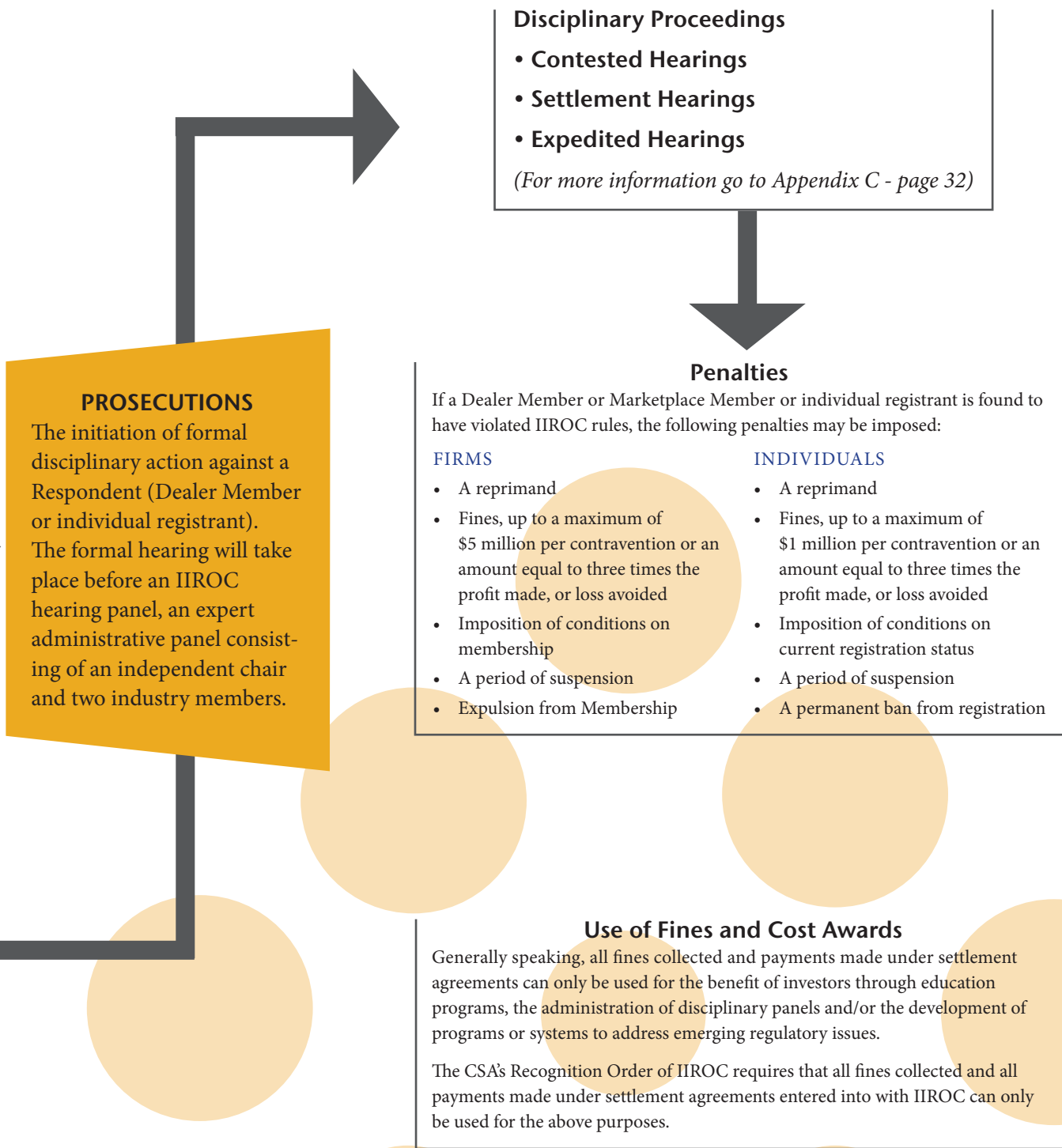
Effective enforcement of securities laws and IIROC rules protects investors by deterring wrongdoers and protecting the integrity of the Canadian capital markets.

### **T** *IMELY*

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

# IIROC's Enforcement Process





*Enforcement continued to focus on the protection of seniors and vulnerable investors...*

## Enforcement Priorities & Themes

This past year, Enforcement continued to adapt and respond to issues arising out of challenging and dynamic financial markets, while enhancing investor protection and promoting fair, efficient and competitive capital markets. In alignment with IIROC's key strategic priorities, Enforcement maintained its focus on the protection of seniors and vulnerable investors, unsuitable investment recommendations and firms' supervision of their retail operations. On the market side, Enforcement continued to focus on the identification, investigation and prosecution of market cases involving manipulative and deceptive trading.

While much of Enforcement's work in 2013 involved the familiar themes of seniors and vulnerable investors, suitability and firm supervision, we also saw a new theme emerge. The ongoing economic challenges faced by many Dealer Members in 2013 resulted in some firms failing to comply with IIROC's prudential rules relating to firm liquidity and solvency. In these cases, Enforcement took special measures, including expedited disciplinary action to suspend or terminate affected firms in order to protect the investing public.

Consistent with previous years, cases involving seniors and/or suitability represented well over one third of all disciplinary cases in 2013. Among those cases were recurring examples of investment advisors failing to adequately understand the products recommended and properly assess the suitability of complex investment products, including leveraged or inverse exchange-traded funds (ETFs).

The significant number of suitability-related cases also translated into a material number of cases involving a Dealer Member's failure to properly supervise their retail activities. Issues of inadequate and/or ineffective firm supervision also figured prominently in Enforcement's market-related disciplinary actions, especially as it related to Dealer Members' oversight of their Direct Market Access (DMA) clients<sup>1</sup>.

<sup>1</sup> Also referred to as Direct Electronic Access (DEA) clients. For further information, please see IIROC Notice 13-0184 Provisions Respecting Third-Party Electronic Access to Marketplaces



## ***Seniors and Vulnerable Investors***

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One of Enforcement's long-standing enforcement priorities is the identification and pursuit of those engaging in unfair, misleading and/or abusive sales practices. Since 2011, Enforcement has focused particularly on incidents involving seniors and vulnerable investors. This past year, approximately 37% of complaints reviewed by IIROC involved seniors<sup>2</sup>. In response, approximately 40% of IIROC's prosecutions against individual registrants related to misconduct against seniors, making it one of IIROC's top matters prosecuted in 2013.

The vast majority of cases involving seniors dealt with suitability violations relating to the risk profile of an investment itself and/or the improper use of leverage (i.e. borrowing funds to invest). The inappropriate use of leverage is problematic for any investor, but particularly so for seniors. Many do not have the income to service the debt in the event that the value of the investment purchased with the borrowed funds declines, nor the time to recover from a market loss. These factors, coupled with the frequent need for income generation and, in some cases, limited investment knowledge, requires that investment advisors be acutely sensitive to the circumstances of seniors and their investment needs and financial realities.

These concerns are not, however, exclusive to seniors. Other investors may be vulnerable as a result of limited investment knowledge and experience, language barriers and/or cognitive impairments. In these cases, it is equally critical that investment advisors recognize the importance of knowing their client and providing sound investment recommendations that are consistent with the client's needs, appetite for risk and investment objectives.

Seniors and vulnerable investors often rely heavily on their investment advisors and may, in some cases, develop broader relationships extending to other areas of their lives. In these cases, advisors must be aware of potential or actual conflicts of interest so that they can either manage or avoid the conflict. An investment advisor's failure to recognize and/or address such conflicts may give rise to an enforcement action, as was the case in the *Daniel Edward Smith* case described on page 11.

Over the past year, Enforcement has actively pursued matters related to seniors and vulnerable investors. The following cases highlight Enforcement's ongoing commitment to the protection of seniors and vulnerable investors.

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<sup>2</sup>A senior is defined as an individual who is 60 years old and above.

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**CASE HIGHLIGHTS*****Charles Floyd (Disciplinary hearing) - Alberta\****

This case involved an investment advisor making unsuitable recommendations and engaging in unauthorized discretionary trading on behalf of his client. The client was a 60-year old engineer planning for his retirement. He was an unsophisticated investor who relied heavily upon his advisor, Floyd, for his expertise and advice.

The suitability violation resulted from an overconcentration in one stock, coupled with an excessive use of margin. Floyd recommended his client invest virtually all of his inheritance in Bell Canada Enterprises (BCE), a corporation that at the time was subject to a takeover bid that was to take place later in the year. Despite reported problems with the pending takeover bid, the client continued to hold a concentrated position in BCE shares on the advice of Floyd.

Floyd also recommended that the client purchase other securities on margin. A few months later the market value of most of the securities declined significantly, triggering margin calls. To make matters worse, the BCE takeover bid did not take place, resulting in a decline in value of the client's BCE holdings and triggering another margin call. As a result of these events, the client lost virtually all of his original investment of \$352,000.

The IIROC hearing panel rejected Floyd's attempt to deflect responsibility for the losses onto his client and the prevailing market conditions and found instead, that Floyd was directly responsible for the unsuitable recommendations. In addition, the hearing panel found that Floyd engaged in a small number of discretionary trades with respect to other securities purchased for the client. His unwillingness to accept responsibility for his misconduct and his related prior discipline history were aggravating factors in determining the appropriate penalty. Floyd was permanently banned from being an IIROC registrant, fined \$100,000, ordered to disgorge his profits of \$5,860 and to pay costs of \$15,000.

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*\*The hearing also involved an allegation against the branch manager, James Gordon MacDonald, for failing to supervise. He was also found liable by the IIROC hearing panel for his failure.*

### ***Roger Michael Biduk (Disciplinary hearing) - Quebec***

Biduk was found liable for failing to know five of his clients and engaging in an unsuitable, high-risk trading strategy for these clients for over a two-year period. He traded in a very small number of high technology stocks, and in some cases margin was used. All five clients were unsophisticated, vulnerable investors (three of whom were seniors). The clients' New Client Application Forms (NCAFs) inaccurately reflected that the clients possessed good investment knowledge and a high tolerance for risk. The NCAFs were also inaccurately amended from time to time to reflect a higher degree of risk tolerance, in order to permit the inappropriate, highly concentrated trading to continue. The hearing panel found that Biduk took a "one-size-fits-all" approach by filling out the NCAFs in an arbitrary and perfunctory manner, without knowing his clients at all.

The hearing panel imposed a 10-year suspension from IIROC approval, a fine of \$100,000 and \$25,000 in costs. Should Biduk seek re-registration, he would also be required to pass the Conduct and Practices Handbook course and be subject to 12 months of both strict and close supervision, respectively.

### ***Daniel Edward Smith (Settlement) - British Columbia***

Smith was an investment advisor who established a long-standing and close personal relationship with an elderly couple. When the husband became ill, the couple agreed to sell their property to Smith and his wife. After the husband's death, the widow gave each of Smith's two children a monetary gift to assist with their university education. She also executed a new will in which Smith and his family were named as beneficiaries, entitled to receive 75% of her estate. Smith failed to appreciate the potential conflict this created and did not disclose these transactions to his firm, despite several opportunities to do so. His failure to disclose these dealings in advance prevented the firm from conducting the necessary oversight of these potential conflicts.

Smith was found to have engaged in undisclosed personal financial dealings with his client. He was suspended for four years, ordered to pay a fine of \$50,000 and costs of \$5,000.

## *Suitability and Know Your Product*

Suitability remains at the core of much of Enforcement's activities. Unsuitable investments was the most common matter investigated in 2013, in fact, over 45% of all investigation files opened by Enforcement in 2013 related to suitability issues. This translated to over 40% of our disciplinary cases, against individuals, involving suitability.

One of an investment advisor's most basic obligations is to ensure that investment recommendations are suitable for the client in question, based on the client's risk tolerance, investment objectives, time horizon and personal/financial circumstances. The disciplinary cases have been clear – the obligation rests solely with the investment advisor and cannot be avoided or transferred to the client, even if the advisor obtains the client's acknowledgment that they are aware of the negative material factors or risks associated with the particular investment.

While separate and distinct, a related regulatory requirement is the obligation to understand any investment product recommended to a client. Dealer Members and investment advisors need to be diligent and take the steps necessary to understand the products being sold to their clients. In addition, they need to ensure that the material risks of products they recommend are clearly communicated to and understood by their clients, particularly in the case of complex investment products.

There have been several cases initiated by Enforcement which highlight these regulatory requirements and demonstrate the consequences for failing to comply with them.

### **CASE HIGHLIGHTS**

#### ***David Charles Phillips & John Russell Wilson (Disciplinary hearing) - Ontario***

Phillips was a principal and the individual ultimately responsible for the compliance regime at First Leaside Securities Inc. (FLSI), a Dealer Member that was suspended by IIROC in February 2012. Wilson was a senior investment advisor.

FLSI was part of the First Leaside (FL) Group of companies, which included over 100 entities. Phillips was the directing mind of the FL Group. Wilson was an officer, director and general partner of various entities within the FL Group. FLSI primarily sold investment funds and limited partnership units manufactured and

marketed by the FL Group. As at June 2011, there were approximately 1,200 FLSI clients, who had invested a total of \$284 million in FL products since 2004. The FL Group is currently in receivership.

Phillips and Wilson were found to have made misrepresentations to clients, distributed misleading marketing materials to clients, failed to ensure recommendations made and orders accepted were in accordance with the clients' risk tolerance, and solicited sales of a particular security while failing to ensure that those transactions were suitable for the client or within the bounds of good business practice. Additionally, Phillips was found to have been in a conflict of interest with some of his clients. All of the allegations related to sale of the FL Group proprietary products.

Both Phillips and Wilson were permanently barred from being approved by IIROC in any capacity. In addition, Phillips was ordered to pay a fine of \$2 million, while Wilson was ordered to pay a fine of \$500,000. Phillips and Wilson were also ordered to jointly pay costs to IIROC in the amount of \$230,000.

### ***Frédéric Lavoie (Disciplinary hearing) - Quebec***

### ***Steven Frank Carinci (Settlement) - Ontario***

### ***Derek George Laidlaw Axford (Settlement) - Ontario***

These three cases all dealt with an advisor's lack of due diligence in understanding either leveraged ETFs (*Lavoie, Carinci*) or inverse ETFs (*Axford*).

In two of the cases (*Lavoie* and *Carinci*), inadequate steps were taken to understand and appreciate the risks of the leveraged ETFs. In one of these cases, the advisor simply relied upon the summary explanations provided by the product representative. In the other case, the advisor did some research, but not enough to truly understand the products. In both cases, neither Lavoie nor Carinci reviewed the prospectus, which clearly and expressly described the high-risk nature of these complex products.

In *Axford*, the advisor recommended the purchase of certain inverse ETFs, which are described in the prospectuses as risky or highly speculative securities, to clients who had only a medium or medium-high risk tolerance noted on their "Know Your Client" forms. Despite the information in the prospectus and other research, he did not believe these products were high-risk securities.

All three individuals were suspended from IIROC approval for a period of time (ranging from one month to two years), along with a financial penalty, thereby sending a strong deterrent message to IIROC registrants and highlighting the need to understand the products recommended to clients.

## Manipulative and Deceptive Trading Activities

The pursuit of market-related cases that serve to shape the behaviour of market participants and thereby, enhance fair, efficient and competitive capital markets is an IIROC priority. Enforcement staff, in collaboration with IIROC's Market Surveillance and Trade Review & Analysis staff, identify and address manipulative and deceptive trading activities that undermine investor confidence in the fairness and integrity of the Canadian capital markets.

The following cases illustrate Enforcement's role in the pursuit of this strategic priority.

### CASE HIGHLIGHTS

#### ***Yufeng Zhang (Settlement) – British Columbia***

Over a six-month period, Zhang, a proprietary trader, entered orders before the market opened for trading in several TSXV-listed securities, in order to detect the size of iceberg orders. (In an iceberg order, only a portion of the total order volume is disclosed to other market participants, while the remainder of the order remains hidden from other market participants' view). This trading activity allowed Zhang to detect the level of interest on the other side of the market so that he could potentially trade ahead of it for his own profit. This constituted "abusive liquidity detection" which contravenes UMIR. Zhang admitted that he engaged in a manipulative or deceptive practice and agreed to pay a \$10,000 fine, to a suspension of his access to IIROC-regulated marketplaces for one month, and to pay costs of \$1,500.

#### ***Alexey Eydelman (Settlement) – Ontario\****

Eydelman, a proprietary trader, entered orders that established a high closing bid price for a TSX-listed security in circumstances where he would have known the orders could create an artificially high closing price. On the last trading day of seven consecutive months, Eydelman established an artificially high closing bid for the security, contrary to UMIR. Eydelman agreed to pay a \$30,000 fine, to a suspension of his access to IIROC-regulated marketplaces for three months and to pay \$5,000 in costs.

*\*Questrade Inc., the employer Dealer Member, was also disciplined for its failure to adequately supervise Eydelman. In the same settlement, Questrade Inc. agreed to pay a fine of \$70,000, and costs of \$10,000.*

## ***Jean-François Lemay (Disciplinary hearing) - Quebec***

Lemay engaged in wash trading in that he entered orders on both the buy and sell sides of 17 separate securities transactions on the TSXV, knowing there was no change in beneficial ownership. This created fictitious buy and sell transactions involving the same securities, in contravention of UMIR.

The penalties imposed included a six-month suspension of access to IIROC-regulated marketplaces, a fine of \$35,000 and costs of \$25,000.

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## ***Supervision***

### **(A) MEMBER CONDUCT SUPERVISION**

Enforcement's focus on suitability issues extends beyond the individual registrants, and reaches to the supervisors who oversee investment advisors' activities. Investigating and, in appropriate circumstances, prosecuting supervisors ensures a comprehensive regulatory review that holds each individual or firm accountable for their obligations relating to retail account activities. Enforcement not only looks for evidence of supervision, but ensures that the quality of the supervision is adequate and reasonable in light of all of the circumstances.

## **CASE HIGHLIGHTS**

### ***Canaccord Genuity Corp. (Settlement) – British Columbia***

Canaccord Genuity Corp. (Canaccord) admitted, in a settlement agreement with IIROC staff, to having failed to adequately supervise client accounts over a six-year period (from 2005 to 2011). Specifically, Canaccord admitted that it (1) failed to adequately monitor the supervision performed at the branch level; (2) failed to have effective head office supervisory procedures in place; and (3) refused to adopt adequate procedures that would ensure that clients who purchased private placements were qualified as accredited investors.

The settlement agreement came as a result of an extensive review of Canaccord's supervisory practices by IIROC. Canaccord agreed to pay a fine of \$750,000 plus disgorged commissions of \$310,000. It also agreed to contribute \$50,000 towards IIROC's investigation costs.

### ***James Gordon McDonald (Disciplinary hearing) – Alberta***

This case was heard together with the case against Charles Floyd (cited on page 10), as McDonald was the branch manager responsible for supervising Floyd. McDonald failed to adequately supervise one of Floyd's client accounts in order to ensure the holdings were suitable for the client.

McDonald was found to have displayed a lack of due diligence with respect to a client who had the majority of his account invested in one security. McDonald failed to ensure the same client was aware of the risks involved in opening a margin account, and whether such an account was suitable for him. McDonald also failed to document any questions he asked or supervisory measures he took with respect to this account.

McDonald was suspended from acting in any branch manager or supervisory capacity for a period of 12 months and ordered to pay a fine of \$35,000 and costs of \$5,000. He was also required to rewrite the Conduct and Practices Handbook Course and Branch Managers Course, or equivalent, prior to any reinstatement to a supervisory position.

### ***Guy Brunet (Settlement) – Quebec***

Brunet was the branch manager in the Montreal branch of Canaccord. Brunet admitted to failing to use due diligence and fulfil his supervisory duties with respect to his supervision of two investment advisors in his branch over a five-year period (from 2004 to 2009).

While Brunet had delegated his supervisory responsibilities to another individual in the branch, he took no steps to ensure that the tasks delegated were being performed adequately. The failure to supervise involved two advisors (who were the subject of separate discipline proceedings by IIROC staff) who engaged in unauthorized discretionary trading and excessive trading in client accounts. The hearing panel concluded that had Brunet exercised reasonable due diligence and adequately supervised the accounts in question, he could have detected this misconduct in a timely fashion.

Brunet agreed to a three-year suspension from acting as a supervisor, a fine of \$40,000, costs of \$5,000 and a requirement to successfully complete the Branch Managers Course prior to re-approval as a supervisor.



## (B) TRADING SUPERVISION

In addition to the Questrade case (footnoted in the Eydelman settlement on page 14), Enforcement completed several other trade supervision cases involving contraventions of UMIR, where investment dealers failed to properly supervise the trading activity of DMA clients over 2013. DMA clients are permitted to trade directly on a marketplace by entering into an agreement with the Dealer Member. Despite the client's direct market access, the Dealer Member remains responsible and must ensure that it adequately supervises the trading activity of all DMA clients, in order to ensure that they follow IIROC's market integrity rules.

### CASE HIGHLIGHTS

#### ***Scotia Capital Inc. (Settlement) – Ontario***

Scotia Capital acquired an order-execution-only service Dealer Member which had, prior to being acquired by Scotia Capital, failed to detect that certain DMA clients were involved in potential wash trading (trades where there is no change in beneficial ownership of the security) and attempts to create artificial prices, not justified by real supply and demand.

As the acquirer of the Dealer Member, Scotia Capital inherited the acquired Dealer Member's supervisory failings. Further, the wash trading and artificial pricing activity continued after Scotia Capital's acquisition of the Dealer Member as a result of Scotia Capital's lack of adequate policies and procedures designed to detect potential wash trades or Scotia Capital's failure to properly implement the necessary policies and procedures. Scotia Capital agreed to pay a \$150,000 fine and \$10,000 in costs.

#### ***JitneyTrade Inc. (Settlement) – Quebec***

JitneyTrade was unable to adequately detect, prevent and address potential events of spoofing and layering (both manipulative and deceptive trading strategies in which trade orders are not intended to be executed but rather, are placed solely to gain a price advantage), and other suspicious trading activity by certain of its DMA clients. JitneyTrade supervised its DMA clients by reviewing trade reports generated the next trading day and, in part, relying on the compliance department of a client. JitneyTrade admitted that it failed to implement an appropriate trade

supervision system that was reasonably designed to prevent and detect violations of UMIR requirements for the size and nature of its DMA clients' business. JitneyTrade agreed to pay a \$90,000 fine, as well as \$10,000 in costs.

## *Extraordinary Firm Measures*

In 2013, Enforcement played an important role in five cases involving the suspension or termination of an IIROC Dealer Member, in order to protect the investing public. In all but one of these cases, the firms acknowledged their inability to continue their operations in compliance with regulatory requirements and a consent order was issued to terminate or suspend the Dealer Member.

## CASE HIGHLIGHTS

### *Penson Financial Services Canada Inc. (Penson)*

Penson provided back office services to other IIROC Dealer Members operating as Introducing Brokers, as well as Portfolio Managers regulated by provincial securities regulators (collectively, the Penson Clients). In an effort to reduce its own costs, Penson's US parent company took steps to sell Penson. Those efforts were unsuccessful, as a result of which Penson began an orderly closure of its business in late 2012.

On February 1, 2013, Penson obtained a liquidation order under the Canada Business Corporations Act. Under the court order, the distribution of Penson's assets and the discharge of its debts was continued under the supervision of the court and Ernst & Young Inc. (Ernst & Young) was appointed as liquidator.

As a result of these events, Enforcement initiated an expedited hearing to ensure the orderly wind down of Penson's operation, including the transfer of all client accounts it held on behalf of the Penson Clients. Three days after the liquidation order was issued, an IIROC hearing panel issued an order to immediately suspend Penson's IIROC membership and directed Penson to cease dealing with the public for any reason, other than to complete the liquidation of its business.

### ***Northern Securities Inc. (Northern)***

Northern was one of Penson's introducing brokers before Penson's suspension. Following Penson's suspension, Northern was unable to obtain a new carrying broker before Penson's operations were ultimately wound down. As a result of Northern's inability to obtain a new carrying broker, Enforcement initiated an expedited hearing in December 2012 in order to suspend those aspects of Northern's operations that required a carrying broker. Northern consented to IIROC's application and an IIROC hearing panel issued a consent order imposing terms and conditions on the firm that restricted its activities to mergers and acquisitions, research and corporate finance.

Following these events, Northern's financial position deteriorated rapidly. On January 30, 2013, further disciplinary action was taken alleging that Northern (1) was capital deficient on 38 separate days; and (2) failed to have adequate internal controls in place, as it did not have an approved Chief Financial Officer in place at all times. The matter was resolved by way of a settlement agreement which was accepted by an IIROC hearing panel on March 19th. Key terms of the agreement included:

1. A suspension of Northern's IIROC Membership;
2. The preservation of \$100,000 of Northern's remaining assets until June 30, 2013, at which time Northern was authorized to disburse those funds to its creditors, including any former clients with a valid claim against Northern; and
3. A restriction from undertaking specified financial transactions (including any transactions that would result in a reduction of capital, the redemption of shares, etc.) without first obtaining the written consent of IIROC's VP of Financial and Operations Compliance.

### ***Jory Capital Inc. (Jory)***

Over a period spanning a number of years, Jory was the subject of several IIROC disciplinary actions, one of which was appealed by the firm to the Manitoba Securities Commission (MSC). The result of the appeal was a consent MSC order which set out strict terms and conditions on the firm. Ultimately, Jory was unable to meet IIROC's regulatory capital requirements, which led to a settlement agreement with IIROC. In the settlement agreement, Jory admitted to failing to maintain its risk-adjusted capital at an amount greater than zero since October 29, 2012, contrary to IIROC Dealer Member Rules. The sanction imposed was the termination of Jory's IIROC membership.

## ***Another Noteworthy Case – Deutsche Bank Securities Ltd. (DBSL)***

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In February 2013, Enforcement reached a settlement with DBSL, completing the last of IIROC's enforcement actions originating from the Asset Backed Commercial Paper (ABCP) crisis that occurred in 2008. While each of the other ABCP cases were settled in 2009, DBSL challenged IIROC's jurisdiction to pursue its enforcement action. Over the last several years, DBSL argued its case unsuccessfully before a number of appellate forums. In 2012, the Ontario Court of Appeal upheld IIROC's jurisdiction to take enforcement action against DBSL in this matter. In 2013, the matter was ultimately resolved by way of a settlement agreement between IIROC and DBSL. In the settlement agreement, DBSL admitted that it failed to adequately respond to emerging issues related to the financial viability of the Coventree ABCP by continuing to sell Coventree ABCP without engaging compliance and other appropriate processes for the assessment of the emerging issues. DBSL was fined \$1 million. IIROC took steps to distribute these settlement funds to eligible investors who purchased ABCP from DBSL. The distribution was completed at the end of September 2013.

In 2013, Enforcement played a key role in several important policy projects, designed to enhance the transparency, fairness and effectiveness of IIROC's enforcement process.

## 1. CONSOLIDATED RULES PROJECT

Currently, IIROC's enforcement rules are contained in two separate sets of rules, UMIR and Dealer Member Rules. These rules were carried forward from the Investment Dealers Association (IDA) and Market Regulation Services Inc. (RS), the two predecessor SROs who merged in June 2008 to become IIROC. On March 23, 2012, IIROC published, for comment, a rule proposal to consolidate and rationalize these enforcement rules, in addition to other related rules into one set of new rules (the Consolidated Rules). Following an extensive review of the public comments received in response to the Original Notice in March, and with input from the CSA, IIROC made certain material revisions to the Consolidated Rules and republished the revised Consolidated Rules for further public comment in November 2013.

Generally, the proposed rules address the following topics:

- The investigation process, including notification requirements, the right to counsel and the confidentiality of investigations;
- The required standards of conduct for all IIROC-regulated individuals or Dealer Members;
- Disciplinary proceedings including the related procedural rules, the ability to apply for temporary orders and protective measures;
- The appointment of Public Hearing members who chair the hearing panels;
- Compliance examinations; and
- Registration approvals and reviews.

This proposal will simplify and improve the enforcement of both the Dealer Member Rules and UMIR by bringing the applicable procedural rules, currently contained in these two rulebooks, together into a single set of rules, providing all stakeholders with greater clarity and transparency and ensuring consistency in the application of IIROC's enforcement, examination and registration processes.

## 2. REVISED SANCTION GUIDELINES

On November 6, 2013, IIROC published for comment, Revised Sanction Guidelines. The proposed guidelines set out the sanction principles and factors that may be considered in determining sanctions in IIROC disciplinary proceedings. The purpose of the Revised Sanction Guidelines was two-fold:

1. Consolidate and update the two existing sanction guidelines, namely Dealer Member Sanction Guidelines and UMIR Sanction Guidelines that were used by IIROC's predecessor organizations, the IDA and RS Inc.; and
2. Clearly articulate the general principles and key factors in a concise, streamlined document.

Enforcement believes that these revisions to our existing Sanction Guidelines will promote greater transparency and clearly convey to stakeholders how Enforcement will approach sanction decisions in an enforcement proceeding.

The two key changes in the proposed sanction guidelines are:

1. The elimination of the prescribed fine ranges and minimum fines for common violations; and
2. Express reference and guidance relating to a Respondent's inability to pay and the impact such inability should have upon the determination of monetary sanctions.

These proposed changes, if adopted, will ensure that the necessary factors are considered and sanctions appropriately reflect the gravity of violations.

In an effort to assist Respondents involved in a disciplinary action, and in conjunction with the proposed Sanction Guidelines, Enforcement also developed companion Staff policy statements which set out their approach to three common issues that arise during settlement negotiations and disciplinary proceedings: (1) Suspensions and permanent bars; (2) Internal discipline by a Dealer Member; and (3) Credit for cooperation.

With respect to suspensions, Enforcement is proposing a new approach in cases involving serious wrongdoing. Specifically, where misconduct is sufficiently egregious to warrant a suspension of five years or greater, Enforcement will seek a permanent bar. A distinction was also drawn between "Required cooperation" and "Proactive and Exceptional cooperation", with Enforcement only considering "Proactive and Exceptional Cooperation" as a mitigating circumstance, given the obligation that all IIROC registrants and Dealer Members have to cooperate with IIROC investigations.

### 3. COLLECTION OF FINES & COST AWARDS

IIROC makes every reasonable effort to collect the monetary penalties imposed on disciplined Dealer Members and individual registrants. For those who wish to remain an IIROC Member or individual registrant, payment is mandatory, as a Respondent's failure to pay their fine will result in IIROC taking steps to suspend them until payment is made.

For those Dealer Members or individuals who are no longer a Member or individual registrant of IIROC and refuse to pay, collection is more challenging. In 2013, IIROC collected 98.1% of the penalties assessed against firms, while only 10.5% of the penalties assessed against individual registrants were collected. While in each case Enforcement makes a reasonable effort to collect amounts owing from those who leave the industry following disciplinary action, the legal tools available to IIROC vary from province to province. In Alberta, IIROC has for many years been active in collecting outstanding fines and costs. A provision contained within the *Alberta Securities Act* gives IIROC the authority to register its disciplinary decisions with the Alberta court. Once registered, IIROC is able to take steps to enforce payment, similar to the process of enforcing court judgments. This past year, Enforcement has acquired similar legislative authority in Quebec and has acquired new legal means in Ontario to assist Enforcement collect outstanding cost awards (see sections (a) and (b) below).

In an effort to improve the transparency of this issue and provide the public with information relating to the payment of monetary sanctions, Enforcement has also taken steps to begin publishing in 2014 a list of disciplined individuals who are delinquent in the payment of their monetary sanctions (see section (c) on page 24).

#### **a. New Legislative Powers in Quebec**

In June 2013, the Quebec government, on the recommendation of the Autorité des marchés financiers (AMF), amended the *Act respecting the Autorité des marchés financiers* (the AMF Act), giving IIROC clear legislative authority to seek homologation of its disciplinary decisions. Under this new authority, and similar to the ability IIROC has in Alberta, IIROC's disciplinary decisions can now be certified by the court, thereby allowing IIROC to enforce it as though it was a decision of the court. We believe that this new tool will facilitate IIROC's collection of fines and costs in the province of Quebec.

#### **b. Costs award in Ontario: *Julius C Phillip Vitug***

Unlike Alberta and Quebec, IIROC is not able to enforce its costs orders in Ontario by simply registering the order with the court. In response to this challenge, Enforcement took steps to enforce one of its costs orders by way of an action for breach of contract. Specifically, Enforcement initiated a court

proceeding against Julius Caesar Phillip Vitug (Vitug), a former individual registrant who was disciplined by an IIROC hearing panel for conduct unbecoming and/or detrimental to the public interest. As part of the sanctions imposed, Vitug was permanently banned from being registered in any capacity under IIROC's rules, and ordered to pay costs to IIROC in the amount of \$80,000.

Enforcement brought a motion before the Ontario Superior Court of Justice, seeking a Court order enforcing Vitug's contractual obligation to pay IIROC \$80,000 in costs, awarded by an IIROC hearing panel. The court ruled in IIROC's favour, finding that an IIROC costs order is enforceable as a matter of contract. In its written decision the court confirmed that IIROC has contractual jurisdiction over its Dealer Members and registered individuals. Accordingly, all IIROC registrants, including Vitug, agree to be bound by, observe and comply with IIROC's rules and regulations. This includes an agreement to pay any costs award that may be made against them by an IIROC hearing panel as a result of a finding of misconduct. Vitug appealed this matter to the Ontario Court of Appeal. The appeal was heard and dismissed by the appellate Court on October 16, 2013.

With this decision, Enforcement now has the legal authority to enforce the payment of cost orders made in other IIROC disciplinary matters.

**c. Public Notice of Respondents in default of payment**

In an effort to enhance transparency relating to IIROC's collection rate for fines and other monetary sanctions, IIROC will publish a list of individual registrants who have failed to pay fines, disgorgement, and/or costs imposed as a result of disciplinary action taken against them. The list will be available on IIROC's website and will be updated on a quarterly basis.



The following statistics summarize a range of information and enforcement-related outcomes between 2010 to 2013 and are included in order to provide additional context.

## Complaints

The principal sources of Enforcement's investigations and prosecutions are public complaints reported either directly to IIROC or to investment dealers, who must then convey this information to IIROC via the ComSet system. As such, public complaints are a critical factor in Enforcement's ongoing effort to send strong regulatory messages that deter potential wrongdoers.

### Sources of Complaints Received by IIROC Enforcement

Source	2013	2012	2011	2010
Public <sup>1</sup>	280	252	303	409
ComSet	1,307	1,529	1,285	1,256
Internal (from other IIROC departments)	78	52	96	128
Other SROs and Commissions	17	26	20	55
Other (media, member firms and whistleblowers)	8	13	3	1

<sup>1</sup>Although IIROC receives approximately 1,400 calls from the public each year, only a portion of those calls relate to regulatory matters. The decline in public complaints after 2010 is a direct result of the Complaints and Inquiries Team handling all non-regulatory complaints and referring only regulatory complaints through to Enforcement.

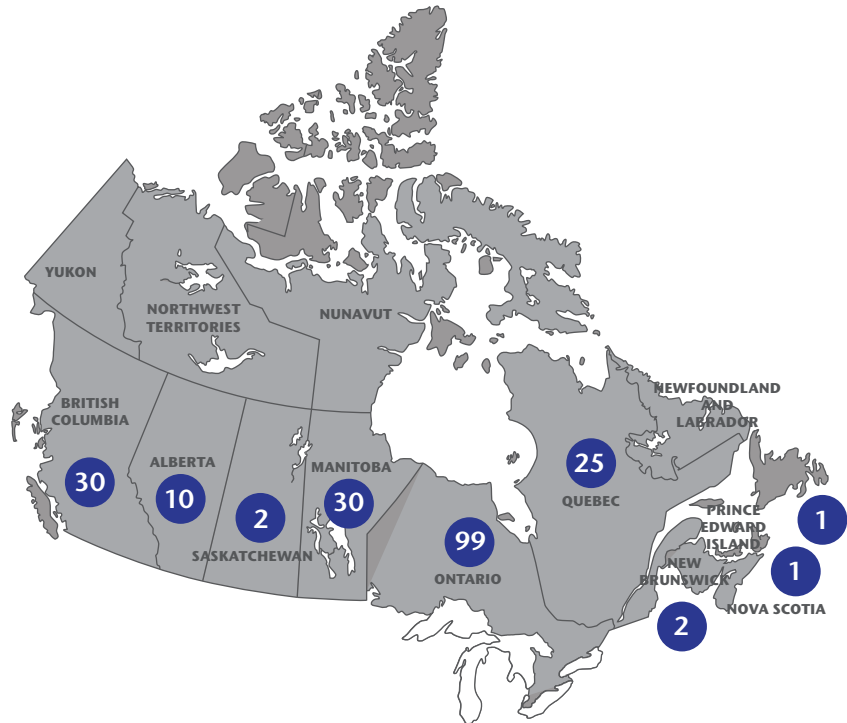
### Most Common Complaints Received by IIROC and Opened by Case Assessment

Type	2013	2012	2011	2010
Unauthorized and discretionary trading	88	87	153	278
Unsuitable Investments	203	224	154	117
Misrepresentation	22	54	64	109

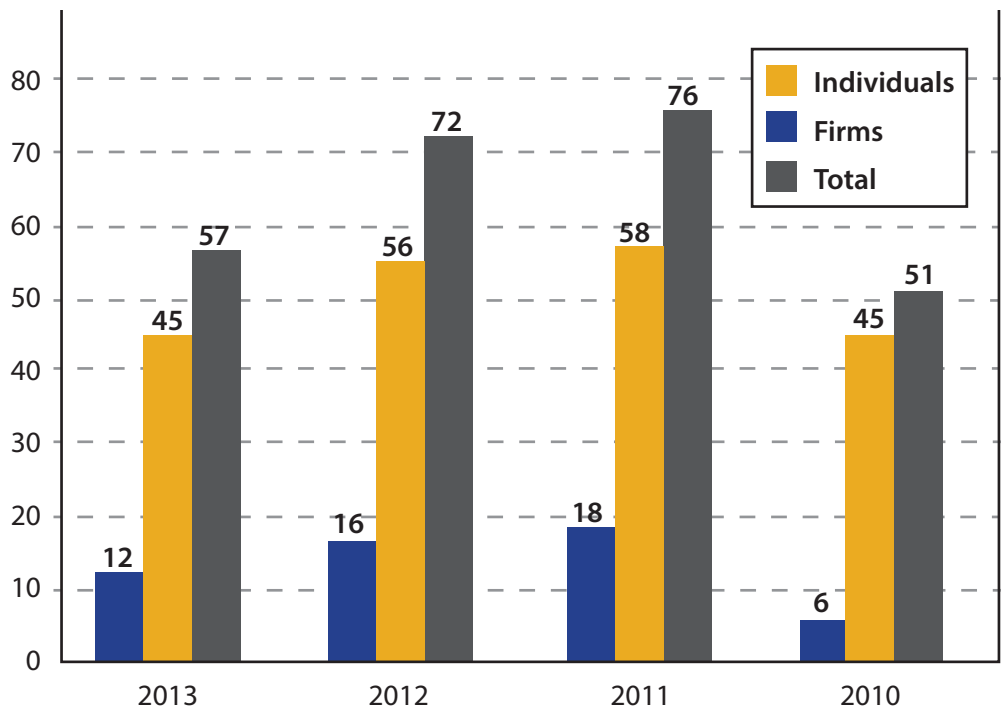
## Investigations

Between January 1 and December 31, 2013, Enforcement staff conducted 200 investigations across Canada

	2013	2012	2011	2010
<b>Number of investigations conducted</b>	<b>200</b>	<b>256</b>	<b>213</b>	<b>425</b>



## Disciplinary Actions - by Respondent



## Regulatory Violations Prosecuted by IIROC

<b>Individuals - By Violation</b>	2013	2012	2011	2010
Due Diligence/Handling of client accounts/Suitability	19	26	20	15
Inappropriate personal financial dealings	7	10	9	10
Misappropriation	3	9	4	2
Misrepresentation	3	9	4	9
Discretionary trading	5	6	5	4
Forgery	3	6	2	4
Unauthorized trading	1	6	7	5
Manipulation	3	4	8	2
Outside business activities	4	4	2	1
Supervision	4	5	4	2
Gatekeeper	2	3	5	6
Fail to Cooperate	3	4	6	7
Trading conflict of interest	0	2	0	4
Off book transactions	5	1	3	6
Trading order violation	0	1	2	0
Trading without appropriate registration	1	1	2	3
Fraud	2	0	0	1
Undisclosed conflict of interest	0	0	0	2
Inadequate books and records	1	0	0	0

<b>Firms - By Violation</b>	2013	2012	2011	2010
Supervision	5	10	9	2
Expedited Hearing - Firm Winding Down	1	3	0	0
Failure to handle client accounts	0	2	2	1
Failure to meet best price obligations	0	2	3	2
Inadequate books and records	0	1	4	0
Internal controls	2	2	3	1
Capital Deficiency	4	1	3	0
Failure to Cooperate	0	0	1	0

### Sanctions Imposed by IIROC Hearing Panels

<b>Individuals</b>	2013	2012	2011	2010
Decisions	45	58	55	45
Fines	\$4,382,500	\$11,345,355	\$5,086,129	\$2,704,853
Costs	\$655,454	\$630,667	\$682,551	\$536,500
Disgorgement	\$220,117	\$142,189	\$629,039	-
<b>Total</b>	<b>\$5,258,071</b>	<b>\$12,118,211</b>	<b>\$6,397,719</b>	<b>\$3,241,353</b>
Suspension	25	34	19	17
Permanent bar	8	10	9	17
Warning letter	5	18	5	17
Conditions	23	21	24	15

<b>Firms</b>	2013	2012	2011	2010
Decisions	12	17	17	6
Fines	\$2,220,000	\$1,361,667	\$1,015,000	\$1,297,500
Costs	\$100,000	\$309,333	\$90,000	\$85,000
Disgorgement	\$310,000	-	\$1,768	-
<b>Total</b>	<b>\$2,630,000</b>	<b>\$1,671,000</b>	<b>\$1,106,768</b>	<b>\$1,382,500</b>
Permanent suspension	3	4	1	1
Termination	2	-	0	-
Warning letter	2	1	1	4

*Note: This table represents the fines imposed by IIROC Hearing Panels but does not represent the total amount of fines collected from respondents.*

January 1 to December 31, 2013

## INDIVIDUALS

### *Discretionary Trading*

- Glenn Arthur Taggart
- Steven Jeske

### *Due Diligence/Handling of Client Accounts/Suitability*

- Reginald Alfred Groome
- James Dale Lambert
- Henry Martens
- Robert Jay Kilgannon
- Derek George Laidlaw Axford .. p. 13
- Ivan Jacobsen
- Keith Jacobsen
- Charles Floyd ..... p. 10
- Donald Alexander Kochan
- John Edward Brodie
- Steven Frank Carinci ..... p. 13
- Roger Michael Biduk ..... p. 11
- Frédéric Lavoie ..... p. 13
- Douglas Charles Allan
- Wayne Chiu

### *Fail to Cooperate*

- David Hoang

### *Forgery*

- Glenn Prior
- Harrison Fitzgerald Keenan
- Graeme Dickson

### *Fraud*

- Steven George Conville
- Roger Schoer

### *Gatekeeper*

- Daniel Bergeron

### *Inadequate Books and Records*

- Peter Michael Deeb

### *Inappropriate Personal Financial Dealings*

- Daniel Edward Smith ..... p. 11
- Jacques Turenne
- Marc Roger Latta

### *Manipulation*

- Yufeng Zhang ..... p. 14
- Alexey Eydelman ..... p. 14
- Jean-François Lemay ..... p. 15

### *Misappropriation*

- Jordan Rocco Steel
- Shelley Blanchard
- Pirkko Ann Ramsay

### *Misrepresentation*

- David Charles Phillips ..... p. 12
- John Russell Wilson ..... p. 12

### *Off Book Transactions*

- Marc Dalpé
- Jean-Marc Milette
- Guylaine Raby
- Gabriel Ka Leung Lee

### *Outside Business Activities*

- Craig Hodge

### *Supervision*

- John Winston Lang
- Paul Frederick Richardson
- James Gordon McDonald ..... p. 16
- Guy Brunet ..... p. 16

## APPENDIX A IIROC Disciplinary Actions

January 1 to December 31, 2013

## **FIRMS**

### ***Capital Deficiency***

- Northern Securities Inc. .... p. 19
- Jory Capital Inc. .... p. 19
- First Financial Securities Inc.
- Union Securities Ltd.

### ***Expedited Hearing – Firm Winding***

#### ***Down***

- Penson Financial Services  
Canada Inc. .... p. 18

### ***Internal Controls***

- Deutsche Bank Securities Ltd. .. p. 20
- Scotia Capital Inc. .... p. 17

### ***Supervision***

- Questrade Inc.
- JitneyTrade Inc. .... p. 17
- Interactive Brokers Canada Inc.
- Canaccord Genuity Corp. .... p. 15
- Dundee Securities Corp.

## APPENDIX B

# Enforcement's Information Sources

Enforcement cases are based on information drawn from a variety of internal and external sources. Internally, Enforcement receives referrals from other IIROC departments including:

### 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 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 as such, they 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 direct investor inquiries and complaints. C&I refers the majority of the complaints it receives, involving alleged regulatory violations, to Enforcement for further assessment.

### EXTERNAL SOURCES

- **ComSet Reports**  
IIROC rules require Dealer Members to inform IIROC, using IIROC's *Complaints and Settlement Reporting System (ComSet)*, when certain events occur, including when a Dealer Member receives a written customer complaint, when criminal charges are laid against a Dealer Member or any of its individual registrants, or when a securities-related civil claim is 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.
- **Referrals from Outside Agencies**  
Enforcement also receives referrals from Canadian provincial securities commissions, international securities regulatory bodies and other public agencies, including law enforcement officials.
- **IIROC's Whistleblower Service**  
Since May 2009, IIROC has operated 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.

## APPENDIX C

### *Types of Disciplinary Proceedings*

Following the completion of an investigation, Enforcement staff (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 the alleged violation of IIROC rules, a contested hearing will be held. In that case, 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, in making its case. The Respondent has the right to challenge IIROC's case by cross examining witnesses and presenting their own 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 does not have the legal authority to compel witnesses or Respondents to attend disciplinary hearings, a Respondent's failure to attend their 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 any formal evidence being called.

#### ***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.



## ***Expedited Hearings***

Generally speaking, an Expedited Hearing is an emergency proceeding that permits Staff to quickly initiate a proceeding against a Member or individual registrant in order to protect investors and/or the industry as a whole in circumstances where a Dealer Member or individual registrant 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 firm or individual registrant.

At the conclusion of an Expedited Hearing, the panel has the authority to impose a variety of sanctions, similar to the regular disciplinary process. Examples of sanction terms include:

- Suspension of membership;
- Immediately cease dealing with the public; and
- Preservation of books and records for a period of time.

## Glossary of Terms

**AMF (Autorité des marchés financiers)** – The AMF regulates Quebec’s financial markets and provides assistance to consumers of financial products and services. It was established under An Act respecting the Autorité des marchés financiers on February 1, 2004, and oversees the regulation of Québec’s financial sector, notably in the areas of insurance, securities, deposit institutions (other than banks) and the distribution of financial products and services.

**Chambre de la sécurité financière** – A Quebec-based agency which oversees the training and professional conduct of its members who work in the following areas: group savings plan brokerage, financial planning, insurance of persons, group insurance of persons and scholarship plan brokerage.

**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.

**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.

**DMA (Direct Market Access) or DEA (Direct Electronic Access)** – An arrangement between a Dealer Member firm and a client that permits the client to electronically transmit orders under the firm’s marketplace identifier either through the systems of the firm for automatic onward transmission to a marketplace or directly to a marketplace without being electronically transmitted through the firm’s systems. In DMA or DEA arrangements, there is no involvement in the entering of the order by the client, by a trader or employee of the Dealer Member.

**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.

**Iceberg Order** – This is a type of order where a portion of the total volume of the order is disclosed to other market participants and a portion of the volume is hidden or kept confidential. An iceberg order is sometimes used if the client or trader feels that if the order volume is fully disclosed it will disrupt the marketplace or have an adverse price impact on the fill of the order.

**IDA (Investment Dealers Association)** – IDA served as a regulator and advocacy organization for security dealers until 2006. In 2006, the IDA narrowed its focus to regulation and transferred its association role to a separate and independent association, the Investment Industry Association of Canada. The IDA and Market Regulation Services were consolidated to form IIROC in 2008.

**Introducing Brokers/Carrying Brokers** – Introducing and Carrying brokers are Dealer Members who enter into an outsourcing arrangement that allows a firm (the “**introducing broker**”) to provide full service to its clients without bearing the large start-up and maintenance costs of operating a complete full-service back office. Under such an arrangement, the introducing broker must meet certain minimum capital requirements, while the majority of the back office operations of operating a firm are performed by the other firm (the “**carrying broker**”), including the clearing and settlement of trades, the custody and segregation of client funds and securities, the maintenance of books and records of client transactions, positions and funds, the financing of client positions (“margin”), and the preparation and distribution of client statements and trade confirmations.

**KYC (Know Your Client)** – This is 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.

**Margin** – Margin is the amount of equity an investor must provide in order to purchase a security held in a “margin account.” A margin account allows clients to buy and/or sell securities on credit and initially pay only part of the full price of the transaction. The firm then grants credit or “loan value” based on the market value and quality of the security held in the account. IIROC Rule 100 specifies the margin requirements for various different securities. For example, if a client holds a security listed on the TSX worth \$50,000 and it has 50% loan value (50% margin requirement) the maximum amount the member firm may lend the client is \$25,000 (requiring an initial margin deposit of \$25,000).

**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 Application Form)** – Securities firms and registered representatives are required to have new clients complete this form to ensure the firm and the representative is aware of the client’s financial position and investment objectives so that the firm and the representative can assess the suitability of their advice.

**Prospectus** – This is a document issued by a company and its underwriter when it offers to sell its securities to the public. A prospectus is a document containing disclosure of all material facts relating to the company issuing the securities in order that investors may make informed investment decisions. The prospectus is filed with the securities regulatory body in the province or provinces in which the securities will be issued.

**MRS (Market Regulation Services Inc.)** – Market Regulation Services was created as a joint initiative of the TSX and the IDA. RS amalgamated the in-house surveillance, trade desk compliance, investigation and enforcement functions of the TSX and TSX Venture Exchange to produce a single entity to monitor and enforce trading rules on multiple marketplaces. IIROC was established in 2008 as a non-profit corporation through the consolidation of the IDA and RS.

**Spoofing/Layering** – Both are trading strategies that are considered manipulative and deceptive. Spoofing is a practice using limit orders that are not intended to be executed to manipulate prices. Some spoofing strategies are related 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.

**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.

**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.

**Wash Trading** – Trading in a security which involves no change in beneficial or economic ownership. Wash trading is considered a manipulative or deceptive method, act or practice under UMIR 2.2(1).



*Protecting Investors and Fostering Fair, Efficient  
and Competitive Capital Markets across Canada*

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Investment Industry Regulatory  
Organization of Canada

Organisme canadien de réglementation  
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