Investment Dealers Association of Canada

bulletin

Association canadienne des courtiers en valeurs mobilières

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Discipline

Discipline Penalties Imposed on Roger Racine - Violations of By-Law 29.27 and Policy No. 2

Person Disciplined	A Hearing Panel appointed pursuant to IDA By-law 20 has imposed discipline penalties on Roger Racine who, at the material time, was the Manager of the Laval Branch of Scotia Capital Inc., an IDA member firm.
By-laws, Regulations or Policies Violated	Following a settlement hearing held on June 7, 2006 at Montréal, Québec, a Hearing Panel reviewed and accepted a Settlement Agreement between the Staff of the Association's Enforcement Department and Mr. Racine.

Under the terms of the Settlement Agreement, Mr. Racine has admitted committing the following violations between April 2002 and December 2003:

- Failure to use due diligence in his supervision, to learn the essential facts relative to every client and every account accepted, when approving new options accounts for seven (7) clients, as well as changes in the investment objectives and risk tolerance listed for these clients, contrary to Policy No. 2;

- Failure to exercise adequate supervision of the transactions effected by a representative under his supervision in the options accounts of eight (8) clients, to ensure the appropriateness of these trades for each client and that the latter had authorized each of the subsequent modifications to the options strategies used in their accounts, contrary to Policy No. 2;

- Failure to ensure that options trades involving large numbers of contracts met the requirements in force at Scotia regarding prior authorizations that might be required, as applicable, contrary to By-law 29.27(b), and Policy No. 2.

Penalties Assessed

The penalties imposed on Mr. Racine are the following:

- Payment of a fine of $30,000:

- Suspension of his registration as Branch Manager for a period of six (6) months;

- As a prior condition to his re-approval as Branch Manager or for any new approval in such a capacity following the period of suspension :

  - Successful completion of the Branch Managers Course administered by the Canadian Securities Institute; and

  - If the member firm for which approval as Branch Manager is being requested trades options with the public, the requirement of successfully completing the Options Supervisors Course administered by the Canadian Securities Institute.

Mr. Racine shall also pay the Association's costs in this matter, in the amount of $5,000.

Summary of Facts

Supervision of options account openings for clients of a representative under his supervision

In May 2003, representative G requested the opening of an options account for his client A, who was elderly and had conservative investment objectives. The client profile was then modified to that of a client with more aggressive objectives and a higher risk tolerance. G requested approval for a high-risk options strategy for this account. The options account application first had to be approved by the branch manager, before being submitted to head office for authorization of the types of options strategies permitted for this client.

There was no real intervention on the part of Mr. Racine concerning the fact that the investment objectives and risk tolerance of a client with such a profile had been changed in this manner. As branch manager, he countersigned the application form without ensuring that the requested authorization to trade naked puts was really suitable for this client.

Similarly, when G opened options accounts for several other clients during the period in question, Mr. Racine did not question the changes to these clients' profiles, nor did he ensure that the degree of risk associated with the types of options strategies requested was suitable for these clients. What's more, he did not question the fact that clients with objectives that had thus far been very conservative, and who had never traded options, suddenly saw their knowledge of options go from low to high. He countersigned the new account applications for these clients.

Supervision of account activity in the options accounts of G’s clients

Over the course of 2003, after opening options accounts for several clients, the representative G effected spreading strategies, generally involving 50 contracts; later increasing the spread points used in his strategies for some of the clients. In the months that followed, he reiterated his strategies in the accounts of these clients, with the same stock, and then with different stock. Then, in November, he significantly increased the number of contracts traded in their accounts to as many as 300 contracts in some cases, without obtaining the clients' specific authorization.

During the daily and monthly reviews of the options accounts, Mr. Racine did not intervene adequately to question the appropriateness of these trades for G's clients, nor did he make sure that each client had truly authorized each of the strategies that were used, as well as the changes that were made to these strategies.

Mr. Racine did not question or verify that G had met the requirements in force at Scotia regarding prior authorizations that might be required, as applicable, prior to the registration of large numbers of contracts.

On at least two occasions, in the options accounts of several of his clients, G closed their positions shortly before maturity, thus causing a greater loss than the maximum loss that might have been incurred had the contracts been allowed to expire.

Mr. Racine did not adequately question the options strategies used by G in his clients' accounts.

The trades effected by G in his clients' options accounts in the last four months of 2003 entailed significant losses.

Kenneth A. Nason
Association Secretary