

IN THE MATTER OF:

**THE RULES OF THE INVESTMENT INDUSTRY REGULATORY
ORGANIZATION OF CANADA**

AND

COLIN GEORGE GRAHAM BAIRD

SETTLEMENT AGREEMENT

PART I – INTRODUCTION

1. The Investment Industry Regulatory Organization of Canada (“IIROC”) will issue a Notice of Application to announce that it will hold a settlement hearing to consider whether, pursuant to Section 8215 of the Consolidated Enforcement, Examination and Approval Rules of IIROC, a hearing panel (“Hearing Panel”) should accept the settlement agreement (“Settlement Agreement”) entered into between the staff of IIROC (“Staff”) and Colin George Graham Baird (“Respondent”).

PART II – JOINT SETTLEMENT RECOMMENDATION

2. Staff and the Respondent jointly recommend that the Hearing Panel accept this Settlement Agreement in accordance with the terms and conditions set out below.

PART III – AGREED FACTS

3. For the purposes of this Settlement Agreement, the Respondent agrees with the facts as set out in Part III of this Settlement Agreement.

Overview

4. The Respondent recommended and implemented significant margin use for a client, which was not suitable, having regard to the fact that she was a retired senior and wholly dependent on her account and the income it generated.

The Respondent

5. The Respondent, Colin George Graham Baird, has been registered in the securities industry since approximately 1998. In September 2012, the Respondent became a Registered Representative with MGI Securities Inc. (“MGI”). When that firm was acquired by Industrial Alliance Securities Inc. (“IAS”) in April 2014, the Respondent’s employment and registration was transferred to IAS.

The Client

6. MM became a client of the Respondent’s in the mid-2000s when he was registered with another Dealer Member firm.
7. In October 2012, just after the Respondent transferred to MGI, he completed a New Client Application Form (“NCAF”) for MM which reflected the following circumstances, risk tolerance and objectives:
 - (a) Born in 1941;
 - (b) Retired;
 - (c) Total net worth of \$600,000 consisting of \$250,000 fixed assets and \$350,000 liquid assets;
 - (d) “Good” investment knowledge;
 - (e) Risk tolerance of 90% medium and 10% high;
 - (f) Investment objectives of 80% moderate to higher-risk income-producing securities, 10% growth-oriented securities, and 10% speculative securities;

- (g) A handwritten comment stating that MM “will be transferring in some speculative positions which will be liquidated where appropriate – will not be buying speculative positions will also engage in short-term trading”; and
 - (h) Time horizon of 10 years or more.
8. Despite the characterization of MM’s investment knowledge as “good” in the NCAF signed by MM, she had limited understanding of investment products and strategies. The Respondent had discussed MM’s investments with her on numerous occasions over their lengthy relationship and genuinely believed that she had good investment knowledge.
 9. MM trusted the Respondent and relied on his advice. Her objective was to remain financially independent and she was not seeking large gains.
 10. The fixed assets of \$250,000 represented MM’s home. MM invested all of her liquid assets with the Respondent and her only sources of income were her portfolio, CPP and OAS. She depended on her portfolio to generate the rest of the income she needed for living expenses.
 11. The Respondent set up a monthly transfer to MM of \$1,500 that was intended to cover her living expenses. However, MM withdrew additional funds such that over the relevant period she withdrew double the anticipated amount from her accounts. This made the portfolio more challenging for the Respondent to manage.

Unsuitable Use of Margin

12. In October 2012, MM opened a margin account at MGI, which both she and MGI approved. MM had a margin account with the Respondent before she transferred her portfolio to MGI.
13. As of January 2013, MM maintained a margin account, an RRIF, and a LIF. She subsequently opened a TFSA. Most of MM’s money was held in the margin account.
14. Prior to 2013, the Respondent had recommended that MM use margin to cover the cost of renovations on her home without liquidating assets. The margin use continued and increased between 2013 and 2015 even though the home improvements were completed.

During this period, MM's portfolio experienced volatility and, ultimately significant losses.

15. As of month-end January 2013, the cash balance owing in MM's margin account represented 31% of the value of securities held. At December 2015 month-end, the cash balance owing in MM's margin account was 60% of the value of securities. During this period, the lowest margin usage was in January 2013 with 31% and the peak was 68% in August 2015.
16. Following is a summary of the average margin used for MM in 2013, 2014 and 2015:

Year	Average Cash Balance	Average Securities	Average Equity	Average Margin Usage
2013	(\$93,682)	\$230,101	\$136,419	40%
2014	(\$150,242)	\$288,058	\$137,816	52%
2015	(\$133,345)	\$224,426	\$91,081	60%

17. MM had discussed the use of margin with the Respondent, but did not have a complete understanding of how margin worked or the risk involved in using margin. The Respondent was not aware that MM's understanding of margin was incomplete.

Margin Magnified MM's Losses

18. In June 2015, the market dipped and MM's portfolio declined in value. In July and August 2015 there were margin calls in MM's account and the Respondent sold securities to cover them after obtaining MM's instructions. Thereafter, when the value of MM's holdings declined, the Respondent sold positions in the margin account to avoid a further margin call, also after obtaining MM's instructions.
19. During the latter half of 2015, MM's margin account balance declined by approximately 24%. There was a general market decline during this time, but the Respondent's use of margin magnified MM's losses. The Respondent recommended that MM sell positions at a loss because her marginable holdings had declined in value. MM accepted the Respondent's advice.

20. IAS never questioned the Respondent about the suitability of his use of margin for MM. The Respondent only received communications from the IAS credit department when there were margin calls.
21. Between 2013 and 2015, MM suffered net losses of approximately \$40,000 in her margin account and \$51,000 in her portfolio, representing approximately 15% of her portfolio and 8.5% of her overall net worth.
22. For a significant portion of the relevant period, the Respondent used the maximum margin allowable for MM. The Respondent did not adequately assess the suitability of his use of margin in MM's account. The Respondent's use of margin for MM between 2013 and 2015 was not suitable for her since she was retired and relied almost exclusively on her portfolio to generate income for living expenses.

Mitigating Factors

23. The securities that the Respondent purchased for MM were consistent with her stated risk tolerance and objectives.
24. All trades were authorized by MM.
25. The Respondent has no disciplinary history.

PART IV – CONTRAVENTIONS

26. By engaging in the conduct described above, the Respondent committed the following contravention of IIROC's Rules:

Between January 2013 and December 2015, the Respondent failed to ensure that his use of margin was suitable for his client, contrary to Dealer Member Rule 1300.1(q).

PART V – TERMS OF SETTLEMENT

27. The Respondent agrees to the following sanctions and costs:

- a) Fine of \$22,500;

- b) Successfully complete the Conduct Practices Handbook Examination within 90 days of acceptance;
 - c) Close supervision for a period of 12 months from the date of acceptance; and
 - d) Costs in the amount of \$2,500.
28. If this Settlement Agreement is accepted by the Hearing Panel, the Respondent agrees to pay the amounts referred to above within 30 days of such acceptance unless otherwise agreed between Staff and the Respondent.

PART VI – STAFF COMMITMENT

29. If the Hearing Panel accepts this Settlement Agreement, Staff will not initiate any further action against the Respondent in relation to the facts set out in Part III and the contraventions in Part IV of this Settlement Agreement, subject to the provisions of the paragraph below.
30. If the Hearing Panel accepts this Settlement Agreement and the Respondent fails to comply with any of the terms of the Settlement Agreement, Staff may bring proceedings under Rule 8200 against the Respondent. These proceedings may be based on, but are not limited to, the facts set out Part III of this Settlement Agreement.

PART VII – PROCEDURE FOR ACCEPTANCE OF SETTLEMENT

31. This Settlement Agreement is conditional on acceptance by the Hearing Panel.
32. This Settlement Agreement shall be presented to a Hearing Panel at a settlement hearing in accordance with the procedures described in Sections 8215 and 8428, in addition to any other procedures that may be agreed upon between the parties.
33. Staff and the Respondent agree that this Settlement Agreement will form all of the agreed facts that will be submitted at the settlement hearing, unless the parties agree that additional facts should be submitted at the settlement hearing. If the Respondent does not

appear at the settlement hearing, Staff may disclose additional relevant facts, if requested by the Hearing Panel.

34. If the Hearing Panel accepts the Settlement Agreement, the Respondent agrees to waive all rights under the IROC Rules and any applicable legislation to any further hearing, appeal and review.
35. If the Hearing Panel rejects the Settlement Agreement, Staff and the Respondent may enter into another settlement agreement or Staff may proceed to a disciplinary hearing based on the same or related allegations.
36. The terms of this Settlement Agreement are confidential unless and until this Settlement Agreement has been accepted by the Hearing Panel.
37. The Settlement Agreement will become available to the public upon its acceptance by the Hearing Panel and IROC will post a full of copy of this Settlement Agreement on the IROC website. IROC will also publish a summary of the facts, contraventions, and the sanctions agreed upon in this Settlement Agreement.
38. If this Settlement Agreement is accepted, the Respondent agrees that neither he nor anyone on his behalf, will make a public statement inconsistent with this Settlement Agreement.
39. The Settlement Agreement is effective and binding upon the Respondent and Staff as of the date of its acceptance by the Hearing Panel.

PART VIII – EXECUTION OF SETTLEMENT AGREEMENT

40. This Settlement Agreement may be signed in one or more counterparts which together will constitute a binding agreement.

41. A fax or electronic copy of any signature will be treated as an original signature.

DATED this “28” day of January, 2019.

“Jof Hogan”
Witness

“Colin George Graham Baird”
Colin George Graham Baird

“Vito Pedone”
Witness

“Elissa Sinha”
Elissa Sinha
Enforcement Counsel on behalf of
Enforcement Staff of the Investment
Industry Regulatory Organization of
Canada

The Settlement Agreement is hereby accepted this “21” day of “February”, 2019 by the following Hearing Panel:

Per: “John Campion”
Panel Chair

Per: “Vanessa Gardiner”
Panel Member

Per: “Daniel Iggers”
Panel Member