

IN THE MATTER OF:

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

AND

AARON JAY ROWLATT

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 (the “IIROC Rules”), a hearing panel (“Hearing Panel”) should accept the settlement agreement (“Settlement Agreement”) entered into between the staff of IIROC (“Staff”), and Aaron Jay Rowlatt (“Rowlatt” or “the 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. Between January 2017 and December 2017 (the “Relevant Period”), the Respondent facilitated suspicious trading by a group of related clients and insiders of two TSXV-listed issuers, Company X and Company Y. The trading was carried out at Industrial Alliance Securities Inc. (“Industrial Alliance”) through five accounts (the “Client Accounts”) held by the related clients (the “Clients”).
5. During the Relevant Period, the suspicious activity consisted of the following:
 - a) Company X and Company Y were illiquid securities, trading between \$0.06 and \$0.235 (Company X) and \$0.015 and \$0.045 (Company Y);
 - b) the trading in the securities by the Client Accounts represented a significant proportion of the daily trading volume, averaging 22.0% (Company X) and 18.4% (Company Y) of all trading activity;
 - c) the trading in the securities by the Client Accounts represented virtually all of the transactional activity in the accounts;
 - d) the orders for all transactions in Company X and Company Y for the Client Accounts were received on an unsolicited basis;
 - e) the unsolicited orders for the Client Accounts were received from an insider of the issuers, the spouse of the insider, or a son or daughter of the insider;
 - f) the frequent depositing of a large quantity of securities certificates of Company X and Company Y followed by the subsequent sale of those securities;

- g) the trading resulted in a significant number of upticks in both Company X and Company Y;
 - h) the trading in Company X and Company Y was frequently uneconomic because it involved purchases by individual accounts of securities at similar or higher prices than sales of the same securities in close time proximity, particularly when trading commissions were factored in; and
 - i) on three occasions, the Respondent's compliance department raised questions about late day trading.
6. The red flags generated by the trading should have caused the Respondents to question the trading, which at a minimum would have required him to receive an explanation from the Clients as to whether there was a legitimate purpose for the trading.
 7. When IIROC initiated its investigation, the Respondent terminated his relationship with the Clients and the firm closed the Client Accounts.
 8. In all of the circumstances, the Respondent did not fulfil his gatekeeper responsibilities.

Background

9. The Respondent has been employed as an investment advisor with Industrial Alliance since April 1, 2014. Prior to that, Rowlatt was employed in registered capacities since December 2006 with BMO Investorline Inc. (December 2006 to February 2009) and MGI Securities Inc., the predecessor to Industrial Alliance (February 2009 to April 2014).
10. Rowlatt was the investment advisor at Industrial Alliance for the Clients and had overall responsibility for the entry of orders in the Client Accounts.
11. The Respondent has not previously been the subject of an IIROC disciplinary proceeding.

12. During the Relevant Period, the Respondent's total annual compensation was approximately \$100,000 - \$125,000.

The Clients and Client Accounts

13. During the Relevant Period, one of the Clients ("Client A") was a director and the Chairman of Company X. Client A was also a director and the President & Chief Executive Officer of Company Y.
14. Client A's common law spouse ("Client B") also had an account with Rowlatt.
15. Client A established a family trust (the "Family Trust") pursuant to which he and Client B were designated as trustees. Numerous family members were beneficiaries pursuant to the Family Trust, including a daughter of Client A who also had accounts with Rowlatt ("Client C") and a son of Client A.
16. Client A was a director and the president of a holding company which held the corporate account for the Family Trust (the "Holding Company"). Client A had trading authorization for the Holding Company.
17. The son of client A is employed by Company X and Company Y and is also the President of a private company ("Client D"), who also had accounts with Rowlatt.
18. The suspicious activity occurred primarily in the accounts of Holding Company and Client B, with limited activity also occurring in the accounts of Client A, Client C, and Client D.
19. The Respondent was compensated by way of base salary together with commission income. Collectively, the Client Accounts were a large portion of the Respondent's book of business and represented approximately 50% of his commission income.

20. The Respondent acknowledges that he did not understand the Client Account trading strategy and did not ask any questions in this regard. Rowlatt received orders on an unsolicited basis and executed them without making inquiries into the nature of the trading.
21. The Respondent did recognize and was concerned about upticks, particularly trades in the latter part of the day. On three occasions, the Respondent's firm's compliance department contacted him about late day trading activity in the Client Accounts. After speaking with his firm's compliance department, the Respondent told the Client Accounts that they could not place orders at the end of the day.
22. Despite these concerns, the Respondent accepted the unsolicited orders on subsequent trading days without any explanation from the client.
23. The Respondent at no time notified his firm's compliance department as to his concerns, or to any suspicious trading activity and assumed that if any potential trading improprieties existed, his firm's compliance department would alert him.

Company X

24. During the Relevant Period, Company X traded at a low of \$0.060 and a high of \$0.235. Monthly trading volumes ranged from 953,980 to 4,580,319 shares. The Client Accounts volume traded ranged from 283,500 to 882,500. Shares in Company X traded on 248 of 251 trading days in the Relevant Period with trades occurring in the Client Accounts on 209 of those trading days.
25. Trades in the Client Accounts accounted for 22.00% of the transactional activity in Company X during the Relevant Period.

26. Company X represented a significant proportion of the trading in the Client Accounts.

Company Y

27. During the Relevant Period, Company Y traded at a low of \$0.015 and a high of \$0.045. Monthly trading volumes ranged from 259,800 to 2,554,947 shares. The Client Accounts volume traded ranged from 10,000 to 375,000. Shares in Company Y traded on 130 of 251 trading days in the Relevant Period with trades occurring in Client Accounts on 45 of those trading days.
28. Trades in the Client Accounts accounted for 18.40% of the transactional activity in Company Y.
29. Company Y represented a significant proportion of the trading in the Client Accounts.

Upticking Activity – Company X

30. In the Relevant Period, the Client Accounts received 981 order fills for shares of Company X. Of those fills, 320 (32.59%) resulted in an uptick. 694 of the 981 total fills were on the buy side and 310 of these (44.67%), resulted in upticks.
31. By contrast, only 49 (4.99%) of total fills for shares of Company X in the Client Accounts resulted in a downtick. 37 of 287 fills on the sell side (12.94%) resulted in a downtick.
32. The upticking by the Client Accounts is more evident when compared to all market participants. Trading activity in shares of Company X by all market participants had an even ratio of 1:1 comparing upticks to downticks. The Client Accounts had a ratio of approximately 6.5:1 comparing upticks to downticks.

33. The Client Accounts were responsible for 320 of 764 upticks (41.89%) in the shares of Company X, but accounted for only 981 of 5375 (18.25%) fills.
34. Schedule "A" sets out further details of trading activity in shares of Company X.

Upticking Activity – Company Y

35. In the Relevant Period, the Client Accounts received 86 order fills for shares of Company Y. Of those fills, 39 (45.45%) resulted in an uptick. 73 of the 86 total fills were on the buy side and 40 of these (54.79%), resulted in upticks.
36. By contrast, only 1 (1.44%) of the total fills for shares of Company Y in the Client Accounts resulted in a downtick. 1 of 13 fills on the sell side (6.67%) resulted in a downtick.
37. The upticking by the Client Accounts is more evident when compared to all market participants. Trading activity in shares of Company Y by all market participants observed a ratio of approximately 1.6:1 comparing upticks to downticks. The Client Accounts had a ratio of approximately 39:1 comparing upticks to downticks.
38. The Client Accounts were responsible for 39 of 86 upticks (45.35%) in the shares of Company Y, but accounted for only 86 of 552 (15.58%) fills.
39. Schedule "B" sets out further details of trading activity in shares of Company Y.

Uneconomic Trading – Generally

40. During the Relevant Period, the Client Accounts generated approximately 22.00%¹ of all trading volume in Company X and 18.42%² in Company Y.

¹ (Volume of Company X shares traded by Client Accounts) ÷ (Total trading volume in Company X by all market participants) = 6,721,500 ÷ 30,554,337 = 0.2200.

² (Volume of Company Y shares traded by Client Accounts) ÷ (Total trading volume in Company Y by all market participants) = 1,459,500 ÷ 7,921,395 = 0.1842.

41. Schedule "C" sets out the details of the trading activity by Client Accounts and all market participants.
42. Schedules "D" and "E" show the breakdown of trading activity by individual Clients within the Client Accounts for Company X and Company Y respectively.
43. At the time of each trade, Rowlatt was not aware whether the trade was uneconomic.

Uneconomic Trading - Company X

44. As set out in Schedule "F", during the Relevant Period, the Client Accounts traded 6,721,500 shares of Company X through 279 trades (981 order fills).
45. The weighted average sale price per share for Company X was \$0.1551 and the weighted average purchase price per share was \$0.1458 (before commissions), resulting in gains before commissions of \$33,801.50.
46. The Respondent (other than a few isolated incidents) charged a commission of \$100 per trade in Company X. The Respondent charged \$27,775 in commissions for the transactions in Company X, resulting in a net return of \$6,026.50. The net return is insignificant compared to over \$1 million in trade turnover that was generated by the Client Accounts in Company X during the Relevant Period.
47. The calculation methodology for gains and losses is set out in Schedule "G".

Uneconomic Trading - Company Y

48. Similarly, as set out in Schedule "F", the Client Accounts traded 1,459,500 Company Y shares through 45 trades (86 order fills).
49. The weighted average sale price per share for Company Y was \$0.0275 and the weighted average purchase price per share was \$0.0305 (before commissions) resulting in losses before commissions \$1,687.50.
50. The Respondent's \$100 per trade commission charge resulted in \$4,500 commissions being paid for the transactions in Company Y, resulting in a net loss of \$6,187.50.
51. In addition, the average value of a trade in Company Y shares was \$958.17 and accordingly commission costs were more than 10% of the average trade value.

Conclusion

52. The Respondent had a gatekeeper responsibility for all orders entered on behalf of his clients.
53. In light of all the foregoing circumstances, further review and investigation was warranted by the Respondent in respect of the Clients' trading activity. In failing to make any such inquiries, he failed to fulfill his gatekeeper responsibilities.

Additional Factors

54. Since July 2019, the Respondent has been under enhanced supervision imposed by the compliance department of his Dealer Member and remains so at present.
55. The Respondent has cooperated with IIROC in its investigation.

PART IV – CONTRAVENTIONS

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

During the Relevant Period, the Respondent failed to fulfill his gatekeeper responsibilities to IIROC-regulated marketplaces, contrary to IIROC Consolidated Rule 1402.

PART V – TERMS OF SETTLEMENT

57. The Respondent agrees to the following sanctions and costs:
 - a) Payment of a fine to IIROC in the sum of \$50,000 (which includes full disgorgement of commissions earned);
 - b) To successfully complete the Trader Training Course within 6 months of the approval of this settlement agreement; and
 - c) Payment of costs to IIROC in the sum of \$7,500.
58. 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

59. 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.
60. 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 of the IROC Rules 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

61. This Settlement Agreement is conditional on acceptance by the Hearing Panel.
62. 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 of the IROC Rules, in addition to any other procedures that may be agreed upon between the parties.
63. 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.

64. If the Hearing Panel accepts the Settlement Agreement, the Respondent agrees to waive all rights under the IIROC Rules and any applicable legislation to any further hearing, appeal and review.
65. 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.
66. The terms of this Settlement Agreement are confidential unless and until this Settlement Agreement has been accepted by the Hearing Panel.
67. The Settlement Agreement will become available to the public upon its acceptance by the Hearing Panel and IIROC will post a full of copy of this Settlement Agreement on the IIROC website. IIROC will also publish a summary of the facts, contraventions, and the sanctions agreed upon in this Settlement Agreement.
68. 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.
69. 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

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

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

DATED this "26" day of "August", 2020.

"Witness"
Witness

"Aaron Rowlatt"
Aaron Rowlatt

"Ricki Ann Newmarch"
Witness

"Andrew P. Werbowski"
Andrew P. Werbowski
Senior Enforcement Counsel on
behalf of Enforcement Staff of the
Investment Industry Regulatory
Organization of Canada

The Settlement Agreement is hereby accepted this "9" day of "September", 2020 by the following Hearing Panel:

Per: "Barry Bresner"
Panel Chair

Per: "Zahra Bhutani"
Panel Member

Per: "Steve Garmaise"
Panel Member

Schedule "A"

Company X				
Entire Market		Tick Change	Client Accounts	
# of fills	% of fills		# of fills	% of fills
3841	71.46%	No Tick Change	612	62.39%
764	14.21%	Uptick (+)	320	32.62%
770	14.33%	Downtick (-)	49	4.99%
5375	100.00%	Count Total Fills	981	100.00%

Schedule "B"

Company Y				
Entire Market		Tick Change	Client Accounts	
# of fills	% of fills		# of fills	% of fills
425	76.99%	No Tick Change	46	53.49%
86	15.58%	Uptick (+)	39	45.35%
41	7.43%	Downtick (-)	1	1.16%
552	100.00%	Count Total Fills	86	100.00%

Schedule "C"

Description	Company X	Company Y
# of shares traded by all market participants	30,554,337	7,921,395
# of shares traded by Client Accounts (at Industrial Alliance)	6,721,500	1,459,500
% of volume traded by Client Accounts compared to entire market	22.00%	18.42%
# of trades by Client Accounts	279	45
# of order fills by Client Accounts	981	86

Schedule "D"

Company X								
Client Accounts	BOUGHT				SOLD			
	# of shares	%	# of fills	# of trades	# of shares	%	# of fills	# of trades
Holding Company	3,407,200	97.73%	674	188	671,500	20.76%	81	19
Client B	55,000	1.58%	15	6	2,538,800	78.47%	204	60
Client D	24,000	0.69%	6	4	15,000	0.46%	1	1
Client C	0	0.00%	0	0	10,000	0.31%	1	1
Total from Client Accounts	3,486,200	100.00%	695	198	3,235,300	100.00%	287	81

Schedule "E"

Client Accounts	Company Y							
	BOUGHT				SOLD			
	# of shares	%	# of fills	# of trades	# of shares	%	# of fills	# of trades
Holding Company	994,000	100.00%	71	40	390,000	83.78%	11	4
Client A	0	0.00%	0	0	75,500	16.22%	4	1
Total from Client Accounts	994,000	100.00%	71	40	465,500	100.00%	15	5

Schedule "F"

Description	Company X	Company Y
# of shares traded by Client Accounts (at Industrial Alliance)	6,721,500	1,459,500
% of volume traded by Client Accounts compared to entire market	22.00%	18.42%
# of trades by Client Accounts	279	45
# of order fills by Client Accounts	981	86
Total value of shares traded by Client Accounts	\$1,010,497	\$44,168
Weighted average cost per share to Client Accounts	\$0.1458	\$0.0305
Weighted average proceeds per share to Client Accounts	\$0.1551	\$0.0275
Weighted average trade value of Client Account trades	\$3,621.85	\$939.73
Lowest trade value for which Commission was charged to Client Accounts	\$185.00	\$250.00
Commission charged by Rowlatt per trade to Client Accounts	\$100	\$100
Total Commission charged to Client Accounts	\$27,775	\$4,500
Total Gain/Loss before Commission to Client Accounts	\$33,801.50	-\$1,687.50
Total Gain/Loss after Commission to Client Accounts	\$6,026.50	-\$6,187.50

Schedule "G"

Total Gain (Loss) before Commissions = Realized Gain (Loss) + Unrealized Gain (Loss)

Total Gain (Loss) after Commissions = Realized Gain (Loss) + Unrealized Gain (Loss) – (Commissions Paid)

Realized Gain (Loss) = (base number of shares transacted³) × ((weighted average sale price) – (weighted average purchase price))

Unrealized Gain (Loss) = (residual number of shares⁴) × (closing stock price on the last trading day)

	Company X	Company Y
base number of shares	3,235,300	465,500
weighted average sale price	\$0.1552	\$0.0275
weighted average purchase price	\$0.1458	\$0.0305
Realized Gain(Loss)	\$30,248.19	-\$1,416.34
residual number of shares	250,900	528,500
closing stock price on the last trading day (Dec 29, 2017)	\$0.16	\$0.03
Unrealized Gain (Loss)	\$3,553.31	-\$271.16
Commission Paid	\$27,775.00	\$4,500.00
Total Gain(Loss) before Commissions	\$33,801.50	-\$1,687.50
Total Gain(Loss) after Commissions	\$6,026.50	-\$6,187.50

³ Shares that were had a full trading cycle; i.e. number of shares that were transacted (bought and sold) without residual. SPP = 3,235,000. CVR = 465,500.

⁴ Difference between the number of shares that were bought and those that were sold; i.e. shares that are being held by clients in their accounts. SPP = 3,486,200 – 3,235,000 = 250,900. CVR = 994,000 – 465,500 = 528,500.