INVESTMENT DEALERS ASSOCIATION OF CANADA

bulletin

ASSOCIATION CANADIENNE DES COURTIERS EN VALEURS MOBILIÈRES

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For distribution to relevant parties within your firm

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Discipline

Discipline Penalties Imposed on Robert Roy Morrison – Violations of Policy No. 2 and Regulation 1300.1(c)

Person Disciplined

The Ontario District Council of the Investment Dealers Association ("the Association") has imposed discipline penalties on Robert Roy Morrison, at the material times a branch manager at the North Toronto branch of Scotia Capital Inc., a Member of the Association.

By-laws, Regulations, Policies Violated

On April 22, 2003, the Ontario District Council considered, reviewed and accepted a Settlement Agreement negotiated between Mr. Morrison and Association Staff.

Pursuant to the Settlement Agreement, Mr. Morrison acknowledged that:

(1) During the period from November 1998 to April 2000, inclusive, he failed to fully discharge his supervisory responsibilities as branch manager in accordance with Association Policy 2 in that he failed to maintain written evidence to support the monthly and daily supervision of client accounts related to a certain registered representative.

(2) During the period from November 1999 to April 2000, inclusive, he failed to properly supervise the trading activity in nine accounts of five clients of a certain registered representative to ensure that the recommendations made were appropriate for the clients and in keeping with their investment objectives, contrary to Association Regulation 1300.1(c) (now Regulation 1300.1(d)).

Penalty Assessed

The discipline penalties assessed against Mr. Morrison are a fine in the amount of $35,000; a prohibition of re-approval by the Association to act in any supervisory capacity with any Member of the Association for a period of three (3) years; and as a condition of re-approval by the Association in any supervisory capacity with any Member of the Association, he must successfully re-write the Branch Manager's examination administered by the Canadian Securities Institute.

In addition, Mr. Morrison is required to pay $4,000.00 towards the Association's costs of this matter.

Summary of Facts

In 1997, Mr. Morrison became the branch manager at Scotia Capital's Hamilton office. He then became the branch manager at Scotia Capital's North Toronto Branch in November 1998. As branch manager at the North Toronto office, Mr. Morrison was responsible for the supervision of R.S., a registered representative and registered options representative.

During Mr. Morrison's tenure as the branch manager at the North Toronto office, he failed to document evidence that he conducted the daily and monthly reviews as required by Association Policy #2 in relation to R.S.'s trading activities, other than by initialing the majority of the daily commission detail reports.

In April 1998, as a result of a regularly scheduled internal review of its Hamilton Branch, Scotia Capital reported that Mr. Morrison was not providing written evidence of his daily and monthly reviews. In 1999, IDA conducted a sales compliance review of Scotia Capital's North Toronto Branch and also noted that Mr. Morrison was not providing written evidence of the daily and monthly reviews. After being notified of the results of both of these reviews, Mr. Morrison did not amend his supervisory practices.

According to Mr. Morrison, he did conduct reviews of the daily commission detail reports and monthly client account summaries except for ten days in November 1999 and March 2000, when he was away from the office. According to Mr. Morrison, his daily reviews of R.S.'s activities consisted of frequent regular discussions with R.S. He also followed up to ensure that R.S. responded to head office inquiries. However, Mr. Morrison rarely reviewed any account documentation beyond the daily commission detail reports in carrying out daily and monthly reviews of trading activity. Rather, he relied upon his discussions with R.S.

Staff's investigation included a detailed review of nine accounts of five clients for which R.S. was responsible. Following this review, Staff concluded that Mr. Morrison failed to conduct adequate supervision (whether documented or not) of these accounts during the period from November 1999 to April 2000 to ensure that R.S. made recommendations that were appropriate and in keeping with the investment objectives of these clients.

The accounts examined revealed that R.S. executed a number of large U.S. trades on margin that raised issues of undue concentration, short-term/day trading and substantial use of margin to purchase securities. At times, the value of the large single trades exceeded the total net asset value of the account. There were also instances when the debit balances exceeded the total net asset value of the account. Most of the accounts reviewed experienced a significant decrease in value between November 1999 and April 2000.

During the same time period, Scotia Capital maintained an internal policy that called for branch managers to approve orders for equity trades between $100,000 and $250,000, except where the client account had sufficient cash or margin for purchases, or securities were long in the case of sales. For a short period of time in late 1999 or early 2000, Mr. Morrison did not follow this policy and pre-authorized some trade tickets for R.S. and one other senior Investment Executive. The Scotia Capital policy was updated on March 3, 2000 in that the threshold for authorization of trades by the branch manager was increased to $250,000. No further trade tickets were pre-authorized by Mr. Morrison following implementation of the updated policy. In December 2000, Mr. Morrison's pre-authorization of trade tickets was addressed internally by Scotia Capital. He paid a penalty of $15,000 and was removed for an indefinite period from a position requiring regulatory supervision. He was also required to re-write the Conduct and Practices Handbook.

Mr. Morrison currently is employed as an Investment Executive at Scotia Capital Inc.

Kenneth A. Nason
Association Secretary