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 Saltsman – Violations of By-law 29.1 and Regulation 1300.1(c)

Person Disciplined

The Ontario District Council of the Investment Dealers Association ("the Association") has imposed discipline penalties on Robert Saltsman, at the material times a Registered Representative and Registered Representative Options at the North Toronto branch of Scotia Capital Inc., a Member of the Association.

By-laws, Regulations, Policies Violated

On December 4, 2003, the Ontario District Council considered, reviewed and accepted a Settlement Agreement negotiated between Mr. Saltsman and Association Staff.

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

(1) In April 2000, he engaged in conduct unbecoming a registered representative contrary to By-law 29.1 in that he:

(i) Misdirected funds from R.N.'s account to I.S.' account and provided a false explanation and related supporting documentation to I.S. as to the origin of these funds.

(ii) Undertook to cover trading losses incurred by his client, I.S., without the knowledge, consent or authorization of his employer Member; and

(2) During the period November 1999 and April 2000, inclusive, he engaged in unsuitable trading strategies in accounts relating to three clients contrary to Association Regulation 1300.1(c).

Penalty Assessed

The discipline penalties assessed against Mr. Saltsman are:

(1) a prohibition of approval by the Association to act in any registered capacity with any Member of the Association, for a period of 10 years, to

commence retroactively on February 7, 2001 in order to reflect the period of time Mr. Saltsman has not been registered with the Association since the time in which the misconduct occurred; and

(2) a fine in the amount of $40,000 to be paid within twelve (12) months from the Effective Date of the Settlement Agreement. If such fine is not paid within the prescribed time period, the default amount of $60,000 will be payable to the Association.

In addition, Mr. Saltsman is required to pay $10,000.00 towards the Association's costs of this matter.

Summary of Facts

The investigation in this matter was initiated as a result of a Uniform Termination Notice ("UTN") received by the Association from Scotia Capital Inc. on May 4, 2000. The UTN indicated that on April 19, 2000, Mr. Saltsman was terminated for cause by Scotia as a result of misdirecting funds from one client's account to another client's account.

On April 3, 2000, Mr. Saltsman executed a large value day trade in an account of one of his clients, I.S., without sufficient margin. Although the day trade generated a profit, the following day the branch manager advised Mr. Saltsman to obtain the necessary funds to cover the trade or else the trade would be reversed. The same day, Mr. Saltsman received a cheque from another client, R.N., in the amount $246,053. On the spur of the moment, and with the sole objective of covering the required margin for the profitable trade, Mr. Saltsman deposited R.N.'s cheque into I.S.'s account without R.N. or I.S.'s knowledge.

It was his initial intention to reverse the cheque deposit the following day and deposit it in the correct account. However, due to a 10-day holding period requirement, it was not possible to reverse the entry the following day. Therefore, Mr. Saltsman sought I.S.'s assistance in retrieving the deposited monies.

On April 16, 2000, a meeting was held between I.S., his accountant and Mr. Saltsman. At this meeting, Mr. Saltsman explained that he had inadvertently deposited a cheque for $246,053 of his own monies in I.S.' account. In order to correct the problem, he suggested I.S. to requisition a cheque from his account in the amount of $200,000. In turn, I.S. would write a cheque payable to Mr. Saltsman in the amount of $200,000. The remaining $46,053 from the initial misdeposit of $246,053 would serve as compensation for trading losses in I.S' account. Mr. Saltsman would also personally pay the difference of $46, 053 that was still owing to R.N.

At the meeting, I.S.' accountant expressed concern about the origin of the funds deposited and insisted that Mr. Saltsman provide him with documentation to prove that these funds belonged to him. In the face of this demand, Mr. Saltsman obtained a copy of a false bank draft in the amount of $246,053 and faxed it to the client. Mr. Saltsman never took any steps to obtain the original bank draft, which was never negotiated and was destroyed after its preparation.

On April 18, 2000, Mr. Saltsman voluntarily disclosed the improper deposit to

R.N., his client who issued the cheque for deposit to her own account. That same day, he also arranged a call to Scotia Compliance in order to voluntarily disclose the improper cheque deposit to Scotia as well. On April 19, 2000, he met with Scotia management to provide further details of the incident. He was immediately suspended and later that afternoon, he was dismissed for cause.

The act of misdirecting these funds did not result in any client losses or financial benefit to Mr. Saltsman. The cheque funds were properly credited to R.N.'s account.

Between November 1999 and April 2000, Mr. Saltsman also engaged in unsuitable trading activity relating to three client accounts.

The first account was jointly held by A.G. and D.G., a husband and wife, 70 and 72 years of age respectively. According to the New Account Application Form ("NAAF"), their initial investment objectives were listed as 50% income and 50% long-term capital appreciation with no risk factors specified.

In the summer of 1999, and following research conducted by Mr. Saltsman, he began to purchase high technology securities for the account and engage in short-term trading. Following an inquiry from Scotia's compliance department regarding the short-term trading of one particular security in the account, Mr. Saltsman updated the NAAF to 50% long-term capital appreciation and 50% speculative trading and included risk factors of 50% medium and 50% high. Two additional NAAF updates were prepared to permit the account to trade in options and on margin. While the margin and options agreements were signed by the clients, the NAAFs did not require their signature. The updated NAAFs did not fully reflect the clients' true investment objectives.

Between November 1999 and April 2000, in the U.S. side of the account, Mr. Saltsman executed a number of large value transactions in technology securities, some of which were high risk, using significant margin. As a result, the account became highly leveraged and concentrated in technology securities. The U.S. side of the account was also subject to short-term trading. The trading strategy employed by Mr. Saltsman was unsuitable and inappropriate for these clients in light of their investment objectives and personal circumstances.

During the same period of time, Mr. Saltsman engaged in a similar unsuitable trading strategy in the account of another client, D.C. Once again following an inquiry by Scotia's compliance department regarding the concentration in Internet stocks and short-term trading, and after meeting with the client, Mr. Saltsman updated D.C.'s NAAF from 70% long-term capital appreciation and 30% speculative trading to 50% long-term capital appreciation and 50% speculative trading. This update did not fully reflect the client's true investment objectives.

The third account was the joint account of J.G. and his wife, B.G. According to the original NAAF, their investment objectives were 30% income, 60% long-term capital appreciation and 10% speculative trading. The risk factors were noted as 30% low, 60% medium and 10% high. On January 24, 2000, Mr. Saltsman purchased, using margin, 2000 shares of ELCOM International Inc., an OTCBB technology stock, at a total cost of $53,585.00 US. This purchase was unsuitable for the clients and caused their account to be concentrated in one single security that by January 31, 2000 constituted approximately 128% of the total net asset value of the account at the time of the transaction.

Mr. Saltsman is not currently registered in any capacity with the Association.

Kenneth A. Nason
Association Secretary