



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

BULLETIN #3264

March 17, 2004

Discipline

Discipline Penalties Imposed on David Cathcart – Violations of By-law 29.1 and Regulation 1300.1(a)

Person Disciplined The Ontario District Council of the Investment Dealers Association of Canada has imposed discipline penalties on David Cathcart, at all material times a registered representative with Northern Securities Inc. and with Rampart Securities Inc., a Member and former Member of the Association, respectively.

By-laws, Regulations, Policies Violated Following a disciplinary hearing on March 4, 2004, the Ontario District Council found David Cathcart to have violated Association By-law 29.1 by engaging in conduct unbecoming or detrimental to the public interest:

- (a) by conducting unauthorized trades in 3 client accounts between November 1999 and December 2000;
- (b) by carrying out trading in the shares of MYO Diagnostics Ltd. and Charrington Business Consultants Inc. in various client accounts, without any benefit to those accounts and for the purpose of avoiding margin requirements or payment for the shares, in a practice known as “debit kiting”;
- (c) by accepting compensation from a client in May 2000 without disclosing such compensation to his employer; and
- (d) by failing to disclose to the Association that he had become a director of Charrington Business Consultants Inc. in July 2000.

The District Council also found that Mr. Cathcart violated Regulation 1300.1(a), in that he failed to learn the essential facts relative to 4 clients and the transactions in their accounts.

Penalty
Assessed

The discipline penalties assessed against Mr. Cathcart are as follows:

- A permanent prohibition on registration in any capacity with the Association.
- A fine in the amount of \$120,000; broken down as follows:
 - i) \$35,000 with respect to the unauthorized trading;
 - ii) \$25,000 with respect to the debit kiting;
 - iii) \$20,000 with respect to the failure to know his clients;
 - iv) \$20,000 with respect to the failure to disclose information to his employer; and
 - v) \$20,000 with respect to the failure to disclose information to the Association.
- Payment of a portion of the Association's costs in the amount of \$50,000.

Summary
of Facts

Registration history:

St. James Securities Inc.:

Between May 1996 and November 1999, Mr. Cathcart was employed as a Registered Representative (Non Retail) at St. James Securities Inc. ("SJS"), a former Member of the Association. While at SJS, Mr. Cathcart also assisted John Illidge ("Illidge") and, for a time, shared a Registered Representative code with him for various client accounts.

John Illidge:

Illidge was a Director, Chairman, Alternate Designated Person and Registered Representative of SJS at various times from 1996 to 1999. Illidge has not been registered with the Association since January 2000.

On June 17, 2003, the Ontario District Council approved a settlement agreement between Illidge and Association Staff. In the settlement agreement, Illidge admitted that, while at SJS, he had engaged in misconduct, including unauthorized trading, conducting personal trading through fictitious client accounts, carrying out transactions in various accounts for the sole purpose of moving debit positions between accounts and carrying out transactions that unduly prejudiced SJS's inventory accounts and SJS's capital position. Illidge was permanently banned from approval in any capacity and was fined \$ 300,000. For further information see Bulletin 3165.

Northern Securities Inc:

In November and December 1999, following the demise of SJS, Mr. Cathcart was approved as a Registered Representative with Northern Securities Inc. ("NSI"). In November 1999, SJS transferred all of its client accounts to NSI and SJS ceased to operate at that time as a brokerage firm.

As Illidge was not registered at NSI, Mr. Cathcart was assigned all of Illidge's client accounts, including all accounts which Mr. Cathcart and Illidge had previously held as joint Registered Representatives (collectively "Illidge client accounts").

Rampart Securities Inc.:

From 2000 to September 2001, Mr. Cathcart was approved as a registered representative with Rampart Securities Inc. ("Rampart"). Rampart is a former Member of the Association.

In or about December 1999, Illidge became a Director of Rampart Mercantile Inc., the parent company of Rampart, and held that position during the time that Mr. Cathcart was employed at Rampart. At all material times, Illidge was also the Chief Executive Officer and President of Hucamp Mines Ltd. ("Hucamp").

Charrington:

Charrington Business Consultants Inc. ("Charrington"), now known as Digital Duplication Inc., is a small capital company whose shares were traded on the CDNX. At all material times, the market for Charrington's shares was illiquid. Mr. Cathcart was a director of Charrington.

MYO:

At all material times, MYO Diagnostics Ltd. ("MYO") was an unlisted small capital company based in California with an illiquid market for its shares. MYO was one of Illidge's clients at SJS. On November 1998 and April 1999, while at SJS, Illidge arranged private placements for MYO.

Failure to know his clients:

Although Mr. Cathcart became the Registered Representative for the Illidge client accounts at NSI, he failed to adequately know those clients in that he had minimal knowledge of the clients and of the transactional activity in their accounts. In particular, while at NSI, Mr. Cathcart did not adequately know clients MYO, O.C.L., and S.T. notwithstanding that he carried out the following transactions for those accounts:

- (a) Sale of 325,000 shares of MYO for MYO's account on November 29, 1999, having a purported value of \$ 1, 121,500.00;
- (b) Sale of 100, 000 shares of MYO for O.C.L.'s account on December 6, 1999, having a purported value of \$ 345,750.00; and
- (c) Purchase of 1,700 shares of Lorus Therapeutic Inc. for S.T.'s account on November 17, 1999, having a purported value of \$643.00.

S.T. was an estate trust. The trust was wound up on or about June 1998. In November 1999, when Mr. Cathcart carried out the transaction referred to above, Illidge was using S.T.'s account to carry out his personal trading. Mr. Cathcart either knew or ought to have known that S.T.'s account was being used by Illidge for his personal trading.

In addition, while at Rampart, Mr. Cathcart did not adequately know his client B.S., notwithstanding that he carried out a numerous amount of purchases and sales of shares including large value transactions in Charrington and Hucamp for B.S.'s accounts from May, 2000 to March, 2001.

Unauthorized trading:

A.D.:

Between October 2000 and December 2000, while Mr. Cathcart was employed at Rampart, he was the Registered Representative for client A.D.'s account. Mr. Cathcart caused the following transactions to take place in this account without the client's knowledge or consent:

- (a) purchase of 160,000 shares of Hucamp on October 25, 2000;
- (b) purchase of 500,000 shares of Hucamp on November 9, 2000;
- (c) purchase of 30,000 shares of Hucamp on November 14, 2000;
- (d) purchase of 40,000 shares of MPR Health Systems on December 29, 2000; and
- (e) purchase of 66, 667 warrants of United America on December 29, 2000.

The transaction described above in item (b) was documented as a private placement of 500,000 flow through shares of Hucamp. Mr. Cathcart was the Registered Representative for Hucamp's trading accounts at Rampart. At the time of this purported private placement, Illidge was the CEO and President of Hucamp and had unrelated business dealings with client A.D.

Client A.D. did not receive its account statements for the transactions described above until January 2001. On or about March 10, 2001, client A.D. complained to Illidge and to Mr. Cathcart about unauthorized transactions in its account, including the purported private placement. Notwithstanding this information, on March 20, 2001, Illidge undertook to CDNX that he would provide it with the required executed Form 4D indicating client A.D. as the placee for this transaction.

Between March 10 and July 31, 2001, representatives of client A.D. faxed letters and left messages for Mr. Cathcart and Illidge requesting the reversal of the unauthorized transactions in its account.

On July 31, 2001, Mr. Cathcart attended a meeting with representatives of client A.D. to discuss the unauthorized transactions in its accounts. Illidge was also present at that meeting and gave assurances that the transactions would be reversed. Ultimately, the transactions were never corrected.

In addition, the transactions in MYO and ST's account referred to above were not authorized by the clients.

Failure to Disclose Compensation from Hucamp:

In May 2000, Mr. Cathcart received stock options in Hucamp as compensation for services rendered to Hucamp. Mr. Cathcart was the Registered Representative for Hucamp's accounts and also traded Hucamp shares for several client accounts. Mr. Cathcart failed to disclose to his employer, Rampart, that he had received such compensation.

Failure to Disclose Directorship in Charrington:

On or about July 10, 2000, while a Registered Representative at Rampart, Mr. Cathcart became a director of Charrington. He failed to disclose his position in Charrington to the Association.

“Debit Kiting”:

While at Rampart, Mr. Cathcart conducted several transactions in the shares of MYO and Charrington in various client accounts without any economic benefit for those accounts.

Between January 11, 2000, and August 16, 2000, accounts for ten (10) individuals and/or corporate entities traded fourteen (14) times in the shares of MYO and/or Charrington. All of these transactions involved internal crosses between accounts for which Mr. Cathcart was the Registered Representative. The purpose of these transactions was to move shares of MYO and Charrington between accounts in order to avoid margin requirements or payment for the shares.

Illidge had also engaged in this pattern of trading at SJS while Mr. Cathcart was employed at SJS. Mr. Cathcart continued in this pattern of trading while employed at NSI and Rampart.

Mr. Cathcart has not been registered in any capacity with the Association since September 2001.

Kenneth A. Nason
Association Secretary