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Discipline

Discipline Penalties imposed on Brant Securities Limited, Keith McMeekin, Hugh Jackson Jr. and John Davies – Violation of By-Law 29.1, Regulations 1300.1 and 1300.2, Policy 2 and Rule 31-505 of the *Ontario Securities Act*

Person Disciplined The Ontario District Council of the Investment Dealers Association of Canada (the "Association") has imposed discipline penalties on Brant Securities Limited, Keith McMeekin, Hugh Jackson Jr. and John Davies, (collectively "the Respondents") at all material times a Member Firm of the Association or registered individuals and senior executives of the Member Firm.

By-laws, Regulations, Policies Violated On April 27, 2004 the Ontario District Council considered, reviewed and accepted a Settlement Agreement negotiated between the Respondents and Association staff.

Pursuant to the Settlement Agreement, Brant admitted that:

- it engaged in conduct unbecoming a Member by failing to respond in a timely manner to Association concerns regarding the design, establishment, oversight and implementation of an effective sales compliance program to ensure proper compliance with regulatory requirements, contrary to Association By-law 29.1.
- it failed to maintain adequate supervisory procedures in accordance with Association Policy No. 2, contrary to Association Regulation 1300.2.
- it failed in many instances to use due diligence to learn the essential facts relative to certain customers and orders or accounts accepted, and to ensure that such orders or accounts accepted were within the bounds of good business practice contrary to Association Regulation 1300.1(a) and 1300.1(b); and

- it engaged in conduct unbecoming a Member contrary to By-law 29.1 by failing in many instances to ascertain the identities of clients and investigate trading activity as required by clause 1.5(1) of Rule 31-505, made under the *Securities Act*, R.S.O. 1990, c. S. 5, as amended.

Pursuant to the Settlement Agreement, Mr. McMeekin and Mr. Jackson admitted that they:

- failed to carry out their duties and responsibilities to ensure the Member was in compliance with Association Requirements pursuant to Association Regulation 1300.2 and Policy No. 2.
- failed to carry out their duties and responsibilities to ensure that Brant fulfilled representations provided to the Association to put into place and implement procedures to ensure compliance with Association requirements contrary to Association By-law 29.1.
- engaged in conduct unbecoming a registered representative contrary to By-law 29.1 by failing in many instances to ascertain the identities of clients and investigate trading activity as required by clause 1.5(1) of Rule 31-505, made under the *Securities Act*, R.S.O. 1990, c. S. 5, as amended.

Pursuant to the Settlement Agreement, Mr. Davies admitted that he:

- failed to carry out his duties and responsibilities to ensure that Brant was in compliance with Association Requirements pursuant to Association Regulation 1300.2 and Policy No. 2.

Penalty
Assessed

The total discipline penalty assessed against the Respondents is a fine in the sum of \$220,000, apportioned as follows:

- Brant - \$125,000
- Mr. McMeekin - \$35,000
- Mr. Jackson - \$35,000
- Mr. Davies - \$25,000

In addition, Brant is required to pay costs of the Association in the sum of \$60,000.

Summary
of Facts

Mr. McMeekin, as Managing Partner and UDP, Mr. Jackson as Managing Partner and ADP, and Mr. Davies as Vice-President and CFO were at all material times Senior Executive Officers of Brant, were responsible for the organization of the Member and had ultimate responsibility for compliance by Brant with Association Requirements.

Sales Compliance Reviews

In January 1999, throughout 2000 and into early 2001, and in October 2001 Sales Compliance Reviews were conducted at Brant.

On each occasion concerns with Brant's Sales Compliance procedures were noted.

These concerns included:

- certain deficiencies in Brant's Policies and Procedures Manuals;
- relatively few controls in place with respect to journals between unrelated accounts, third party cheques and depositing securities to accounts;
- members of the corporate finance department not being segregated from traders;
- no active use of grey and restricted lists and no policies and procedures governing the containment of confidential information;
- no written evidence of daily trading reviews was maintained and review of monthly statements was deficient; and
- deficiencies in signature verification for money laundering purposes.

In 2001, a Sales Compliance Review was completed at Brant. This review identified repeat deficiencies despite representations from Brant that the problems would be rectified. Repeated Sales Compliance deficiencies included:

- deficiencies with respect to the organization of corporate finance and the use of grey and restricted lists;
- deficiencies in signature verification for money laundering purposes; and
- insufficient evidence of daily and monthly supervision of accounts.

In October 2001, a Sales Compliance review was conducted at Brant. This review identified a number of repeat deficiencies despite assurances from Brant that these problems would be rectified. Repeated deficiencies included:

- account supervision deficiencies;
- money laundering verification problems; and
- cash account rule violations.

In addition to these repeated items, additional priority items identified in the 2001 Sales Compliance Review included:

- exception reports regarding monthly reviews;
- concerns regarding out of jurisdiction accounts;
- concerns regarding pending documentation collection;
- advertising, sales literature and research report approval issues;
- identification of Pro orders; and
- issues with respect to changes to filled orders.

Brant responded to these concerns and advised the Association that they would be addressed. Some of the items identified were dealt with promptly but a number remained outstanding until January 2002 when a full time compliance officer was hired and the compliance regime was significantly improved.

Current Sales Compliance Reviews have evidenced no further problems at Brant.

Account Supervision

In addition to the issues raised by the Sales Compliance Reviews, Staff noted concerns regarding the supervision of two brokers formerly employed by Brant.

One broker's activity ought to have raised questions regarding repeated cash account violations, free-riding, and certain client account activity which suggested the clients may have been acting in concert.

The other broker's activity ought to have raised questions regarding:

- the verification of client identities
- receipts of large blocks of share certificates and subsequent disbursements to client accounts
- various wire transfers to apparently unrelated bank accounts
- possible sales from control blocks and insider transactions
- cash and stock journal entries regarding the deposit and transfer of share certificates

The Respondents made limited supervisory enquiries regarding these transactions and did not adequately evidence the results of such enquiries.

Brant's Corporate Policies & Procedures

In addition, Brant did not have proper procedures or policies in place regarding the use of a "Grey List" or "Restricted List" as described in OSC Policy 33-601.

In the Settlement Agreement, Staff acknowledged that Brant had made significant efforts to correct the deficiencies noted and that, but for these substantial improvements, greater sanctions would have been imposed.

Kenneth A. Nason
Association Secretary