INVESTMENT DEALERS ASSOCIATION OF CANADA

bulletin

ASSOCIATION CANADIENNE DES COURTIERS EN VALEURS MOBILIÈRES

Contact:
Paul Smith
Enforcement Counsel
(604) 331-4764

For distribution to relevant parties within your firm

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Discipline

Discipline Penalties Imposed on Kyle Wong; Violations of Regulation 1300.1. (q) and By-law 29.1.

Person Disciplined

A Hearing Panel of the Investment Dealers Association of Canada (the "Association") appointed pursuant to Association By-law 20 has imposed discipline penalties on Kyle Kai Kee Wong, at all material times a Registered Representative ("RR") working at a Richmond, British Columbia branch of HSBC Securities (Canada) Inc. ("HSBC"), a member of the Association.

By-laws, Regulations, Policies Violated

After a Settlement Hearing on July 28, 2005 in Vancouver, British Columbia, a Hearing Panel considered, reviewed, and accepted a Settlement Agreement negotiated between Mr. Wong and Staff of the Enforcement Department of the Association. Pursuant to the Settlement Agreement, Mr. Wong admitted:

Count 1

- that from February 2001 through June 2001, he recommended and processed purchases of Government of Argentina bonds, in the accounts of 4 clients; without first using due diligence to ensure that the recommendation was suitable for those clients based on their financial situation, investment knowledge, investment objectives and risk tolerance contrary to Association Regulation 1300.1. (q) and Association By-Law 29.1.

Count 2

- that on four separate occasions between April 1, 2002 and October 15, 2003, he, without the knowledge or approval of his Member firm, personally compensated his client H&M for the default of the interest payments on the client's Government of Argentina bond by making 4 separate payments totalling $4,200 and thereby acted contrary to Association By-law 29.1**.**

Penalty Assessed

The penalties imposed and costs assessed against Mr. Wong are as follows:

Penalty Count 1

i) Mr. Wong shall pay a fine of $25,000 (twenty-five thousand dollars);

Penalty Count 2

ii) Mr. Wong shall pay an additional fine of $15,000 (fifteen thousand dollars) for a total fine of $40,000 (forty-thousand dollars);
iii) Mr. Wong shall be prohibited from acting in any registered capacity for a period of two (2) years from the effective date of this Settlement Agreement;

Conditions of Re-approval

iv) Mr. Wong's re-approval in any registered capacity shall be subject to the condition that he successfully complete a 1 year period of close supervision by his Member firm;
v) Mr. Wong's re-approval in any registered capacity shall be subject to the condition that he re-write and pass the examination based on the *Conduct & Practices Handbook Course*; and
vi) Mr. Wong's re-approval in any registered capacity shall be subject to the condition that the fine and costs set out in herein are paid in full.

Costs

vii) Mr. Wong shall pay $5,000 (five thousand dollars) towards the Association's investigation and prosecution costs in this matter.

Summary of Facts

Background

The matters relate to the period from February 2001 through October 2003 (the "Relevant Period"). Mr. Wong entered the securities industry as a RR with HSBC in 1998 and was an RR at a Richmond Branch of HSBC during the Relevant Period.

C&L

C&L were a married couple who immigrated to Canada from China in October 2000. L had minimal experience in securities markets. C's experience was from purchasing Treasury Bills of the Chinese Government and fixed deposits when she was living in China.

The NCAF for the C&L Account recorded the Investment Objectives for the account as 100% Income and recorded the Risk Factors as 50% Medium Risk, 50% High Risk notwithstanding the fact that C&L wanted capital preservation.

Contrary to the information recorded on the NCAF C&L's actual investment goal was capital preservation. They did not want any stock investments because they worried about volatility.

Mr. Wong recommended C&L purchase a Government of Argentina Bond (an "Argentina Bond"). He advised that an Argentina Bond was low risk because if Argentina ran into financial difficulty, the World Bank as well as the United States would back them up. Mr. Wong did not advise C&L of any negative aspects of an Argentina Bond.

On May 31, 2001 100,000 units of an Argentina Bond maturing on December 20, 2003 with a coupon rate of 8.375% (the "2003 Bond") was purchased in the C&L Account at 93.50 per unit for a total purchase price of $93,500.00 (US$).

When the 2003 Bond was purchased in the C&L Account it was rated B1 by Moody's and BB- by Standard and Poor's. Its yield to maturity was approximately 12%. The yield to maturity on a bond rated A2 by Moody's and A by Standard and Poor's and maturing at approximately the same time was 5.2%.

According to Moody's, bonds which are rated B1 generally lack characteristics of a desirable investment. Assurance of interest and principal payments or of maintenance of other terms of the contract over any long period of time may be small.

According to Standard and Poor's, a bond rated BB- is regarded as having significant speculative characteristics. It faces major ongoing uncertainties or exposure to adverse business, financial, or economic conditions which could lead to the obligor's inadequate capacity to meet its financial commitment on the obligation.

The 2003 Bond was subsequently downgraded by Standard & Poor's to lower ratings on the dates as follows: B- on July 12, 2001; CCC+ on October 9. 2001; CC on October 30, 2001; D on November 19, 2001.

The 2003 Bond decreased significantly in value shortly after it was purchased in the C&L Account. Details of the price decline are as follows: 93.50 on May 31, 2001 (date of purchase); 67.20 on July 31, 2001; 54.50 on October 31, 2001; 39.00 on November 30, 2001; 33.90 on December 31, 2001.

As a result of the unsuitable recommendations to purchase the 2003 Bond C&L incurred a loss of over $59,000 (US$) in the C&L Account.

K

K was a non Canadian resident who resided in Taiwan. K was born in 1927 and throughout the Relevant Period was retired. He opened a US$ / CDN$ Cash account at HSBC (the "K Account") in July 2000 and appointed his daughter R, who lived in Richmond, full power of attorney.

The NCAF for the K Account recorded the Investment objectives for the account as 80% Income, 20% Growth and recorded the Risk Factors as 80% Low Risk and 20% Medium Risk. K's actual objective for the account was to generate a stable return without risking any loss of principal.

K never dealt with Mr. Wong directly. K had no experience in securities.

R first met Mr. Wong in or about May 2001. Mr. Wong suggested R purchase two bonds in the K Account: an Argentina Bond and a Toronto Dominion Bank Bond ("TD Bond"). When R asked if there was any problem with an Argentina Bond, Mr. Wong indicated the bond was very safe because if the Government of Argentina was ever in trouble, the International Monetary Fund ("IMF") would, as it did in the case of Russia, bail the country out.

On June 8, 2001 R deposited funds to the previously inactive K Account. That same day $99,100 (US$) worth of a TD Bond was purchased in the K Account along with 100,000 units of the 2003 Bond at 94.00 per unit for a total purchase price of $94,000.00 (US$).

As a result of the unsuitable recommendations to purchase the 2003 Bond K incurred a loss of over $36,000 (US$) in the K Account.

V

MV, born in 1938 and KV, born in 1940 (the "Vs") emigrated from India to Canada in 1996. In or around 1998 they opened a joint US$ / CDN$ cash account at HSBC (the "V Account").

Mr. Wong became the Vs investment advisor, in or about 2001 after their previous advisor left the firm.

Mr. Wong did not complete the existing NCAF for the V Account and did not, upon assuming the account, update the existing NCAF. The existing NCAF for the V Account indicated their account objectives were 100% Growth and the Risk Factors were 100% High Risk but the Vs did not see the investment objectives or Risk Factors before signing the NCAF. The Vs actual investment objective for the V Account was capital preservation and income. They could not afford to take any risks with their money.

When he assumed the V Account Mr. Wong advised that given their age, they should not invest in risky products.

On February 14, 2001 when they had some extra money to invest, Mr. Wong recommended the Vs purchase the 2003 Bond. Mr. Wong did not discuss the bond's rating or the risks involved with the bond. On February 15, 2001 16,000 units of the 2003 Bond at 98.75 per unit for a total purchase price of $15,800 (US$).

As a result of the unsuitable recommendations to purchase the 2003 Bond the Vs incurred a loss of over $5,000 (US$) in the V Account.

H&M

H, born in 1915, and M, born in 1927, were a retired married couple who depended on the income generated from their investments to pay for their living expenses. They lived in Richmond, British Columbia.

H&M had a joint US$ / CDN$ cash account at HSBC (the "H&M Account"). Mr. Wong became their investment advisor, in or about 2001 after their previous advisor at left the firm and remained the RR responsible for the H&M Account throughout the Relevant Period.

When Mr. Wong took over their Account H&M advised him that their investment objective was capital preservation and that they wanted to invest conservatively. As long as their capital was safe, they did not mind receiving a lower interest.

In June 2001 Mr. Wong recommended H&M purchase an Argentina bond because the rate of return was high. Mr. Wong did not suggest any other bonds. Mr. Wong did not discuss any risks associated with an Argentina Bond.

On June 11, 2001, 136,000 units of an Argentina Bond maturing on October 9, 2006 with a coupon rate of 11% (the "2006Bond") was purchased in the H&M Account at 96.00 per unit for a total purchase price of $130,560.00 (US$).

Neither H nor M could read English and they went to Mr. Wong's office on a monthly basis because they had difficulties understanding their monthly account statements. They communicated with Mr. Wong in Mandarin.

The 2006 Bond was downgraded and decreased in value in the same manner as the 2003 Bond. As a result of the unsuitable recommendations to purchase the 2006 Bond H&M incurred a loss of over $68,000 (US$) in the H&M Account.

Count 2

In October 2001, H&M received their only interest payment on the 2006 Bond. On or about November 19, 2001 it went into default. When the bond stopped paying interest, M went to Mr. Wong's office and verbally complained to Mr. Wong and told him they did not have enough money to pay for their living expenses.

To compensate them for the 2006 Bond defaulting on its interest payments, Mr. Wong, over a 17-month period from April 8, 2002 to October 8, 2003, made 4 personal payments to H&M totaling $4, 200, without the knowledge of HSBC.

After the Relevant Period

Mr. Wong's employment at HSBC was terminated in August 2004. Mr. Wong was subsequently employed as an RR at RBC Dominion Securities from October 2004 until January 2005. He has not been employed by a Member firm since that time.

Mitigating Factor

HSBC compensated the four clients for their losses in separate settlements. HSBC paid a total of approximately $168,000 to the four clients. Mr. Wong has paid HSBC approximately $105,000 of this amount. Association Staff have therefore concluded that in relation to Count 1, a suspension and a larger fine, which might otherwise have been required, is not required in this case.

Reasons

Written reasons for the acceptance of the Settlement Agreement by the Hearing Panel will be posted on the Association's website in due course.

Kenneth A. Nason
Association Secretary