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Discipline

Discipline Penalties Imposed on Margaret Patricia Hayden; Violations of Regulation 1300.1(a)

Person Disciplined A Hearing Panel appointed pursuant to IDA By-law 20 has imposed discipline penalties on Margaret Patricia Hayden, at all material times a Registered Representative with Acadian Securities Inc., in Halifax, Nova Scotia.

By-laws, Regulations, Policies Violated Following a Settlement Approval hearing held on August 14, 2007, in Halifax, Nova Scotia, a Hearing Panel accepted the Settlement Agreement.

Pursuant to the Settlement Agreement, Ms. Hayden admitted she acted contrary to Association Regulation 1300.1(a) in that she:

- (a) failed to learn the essential facts relative to CT, MT and JT, in that she failed to properly complete new account forms for these clients; and
- (b) failed to use due diligence to learn the essential facts relative to an order accepted, in that she did not adequately inform herself as to the nature or details of the BCI bond, before accepting the order for purchase of this security by her client, CT.

Penalty Assessed The discipline penalties assessed as against Ms. Hayden are:

1. Total fines in the amount of \$17,000;
2. Successful completion of the examination based on the

Conduct and Practices Handbook Course within 6 months from the date of the approval of the Settlement Agreement; and
3. Ms. Hayden will also pay the IDA's investigation and prosecution costs in the amount of \$17,500.

Summary of Facts At all material times Ms. Hayden was employed at Acadian Securities Inc. ("Acadian"), in Halifax, Nova Scotia. Ms. Hayden continues to be employed with Acadian.

The misconduct at issue in this case took place in June 1997, and between September 1999 and February 2000. The IDA commenced its investigation as a result of a client complaint that was received in 2005.

The Account Opening Documents

In June 1997, CT, MT and JT opened a joint account with the Respondent. CT was the daughter of MT and JT and held a power of attorney in respect of their financial affairs.

At that time CT advised the Respondent that the funds in the joint account belonged to her parents and may be needed for their long term health care.

In completing the New Account Application Form (NAAF) for this account, the Respondent discussed the account's investment objectives with CT.

It was the Respondent's practice to complete the risk tolerance portion of the NAAF in accordance with the investment objectives. The percentage of low risk would match the percentage under the income objective; the percentage of medium risk would match long-term capital appreciation; and the percentage of high risk would match the short-term capital appreciation/speculative trading objective. The Respondent developed this practice after being instructed to do so by the office administrator.

In February 2000, the NAAF for the joint account was updated to reflect a change from a cash account to a margin account. The investment objectives were also updated. The Respondent generally discussed risk tolerance with CT, but did not discuss the specific percentages which she inserted into the form. Again, as per the Respondent's practice, the percentages for risk tolerance matched the investment objectives percentages.

The BCI Bond Purchase

In September 1999, CT advised that she was interested in investing in bonds. The Respondent discussed with CT the different types of bonds available, including federal and provincial government bonds and corporate bonds and how the yield reflected the associated risk.

The Respondent subsequently advised CT that she had that day received information regarding the availability of a bond which offered 11% interest annually over five years.

On or about September 21, 1999, the Respondent had received a Green Sheet for Bell Canada International Inc. 11.0% Senior Unsecured Notes (the "BCI bond") which were due September 29, 2004.

The Respondent relied only on the Green Sheet which had been circulated in the office under normal practice. The term sheet included information stating that the issue was underwritten by six of the largest investment dealers in Canada.

The Green Sheet which was reviewed by the Respondent stated that the Prospectus was expected to be filed in all provinces. On or about September 21, 1999, Bell Canada International Inc. issued a prospectus (the "Prospectus") for the issuance of the BCI bond.

The Respondent did not review the Prospectus for the BCI bond prior to accepting the order.

The BCI bond Green Sheet states that it had been rated as follows:

- B(high) by CBRS;
- B2 by Moody's Investor Services Inc.; and
- BB- by Standard & Poor's Rating Services.

The Respondent was of the view that anything that was a single B or above was considered investment grade and pension fund eligible. As the BCI bond had received a BB- rating from Standard & Poor's Rating Services, it was her view that the BCI bond was investment grade and pension fund eligible.

Contrary to the Respondent's view, a bond which receives a BB-rating is not investment grade. Investment grade ratings are generally regarded to be 'AAA', 'AA', 'A' and 'BBB'.

The Respondent admitted that she did not review any of the credit companies' definitions for their ratings. She did not verify to see what the ratings meant as she believed she already knew what they meant in terms of credit quality.

The Prospectus contained a 10 page section titled "Risk Factors". This section revealed that the Corporation had experienced net losses for the three years prior to the issuance of the bond. There is also discussion in this section regarding the Corporation's dependence on Colombian operations and the risks associated therewith. The prospectus also notes that the Corporation has a substantial amount of indebtedness outstanding, which could have important

consequences for bond holders.

The prospectus stated that the BCI bond was eligible under various pension acts: the *Insurance Companies Acts*, the *Pension Benefits Standards Act (Ontario)* and the *Trust and Loans Companies Acts*, for example.

The prospectus also identified the company as owned 75% by BCE, a blue chip company, and it had a management team that included well-respected senior executives in Canada's business community.

The Respondent admits that the credit ratings for the BCI bond appeared to be of greater risk than what she initially thought.

There were two separate purchases of the BCI bond. In September 1999, units of the BCI bond were purchased at \$100.00 each for a total cost of \$35,000. On January 14, 2000, additional units of the BCI bond were purchased unsolicited on the secondary market at a price of \$105.50 per unit, for a total cost of \$105,000, not including accrued interest of \$3,224.66.

The per unit price of the BCI bond began to decline in the fall of 2001 and by the end of March 2002, the unit price was \$62.

On April 23, 2002, the \$135,000 book value of BCI bonds were sold prior to their maturity date at \$41.75 for total proceeds of \$56,362.50 plus accrued interest. The bonds were sold as a result of a margin call. However, by the maturity date of the bonds, they had returned to their original value.

Apart from these proceedings, Ms. Hayden has no disciplinary record with the Association.

For further details, please see the Settlement Agreement and the Hearing Panel's reasons posted on the Association's website at www.ida.ca.

Kenneth A. Nason
Association Secretary