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Discipline

Discipline Penalties Imposed on Fernando Meffé – Violations of By-law 29.1 and Regulation 1300.1

Person Disciplined A Hearing Panel appointed pursuant to IDA By-law 20 has imposed discipline penalties on Fernando Meffé, who at all material times was Vice-President, Alternate Registered Options Principal, Alternate Registered Futures Options Principal and Registered Representative approved for options trading and for futures contracts, employed with National Bank Financial, a Member of the IDA, in its Head Office Branch in Montreal, Quebec.

By-laws,
Regulations,
Policies Violated

Following a settlement hearing held on August 17, 2007 in Montreal, Quebec, a Hearing Panel accepted a settlement agreement between the Staff of the IDA and Mr. Meffé wherein Mr Meffé admitted that he had contravened Regulation 1300.1 and By-law 29.1 during the period from 2000 to October 2001 in that:

1. in his capacity as options representative he signed the opening documentation for options accounts on behalf of approximately one hundred clients without ever communicating with such clients, thus failing to use due diligence to know the essential facts relative to each client and to each account accepted;
2. he requested that the accounts of several clients of the team of P and S be approved for trading in high-risk option strategies although the documentation indicated that the reason for opening such accounts was to reduce the risk to the clients;

and from February 2001 to October 2001, in that:

3. he carried out or permitted the carrying out of options trades on

behalf of several clients without ensuring that such trades were suitable for each such client based on such client's real objectives and risk tolerance;

4. he carried out or permitted the carrying out of options trades on behalf of several clients without communicating with such clients and without obtaining their express prior authorization;
5. he failed to fulfil his undertaking to the management of his employer that he would communicate directly with the clients of the team of P and S in all matters relating to the options requirements of such clients until representative P was authorized to trade options.

Penalty Assessed For such offences, the Hearing Panel assessed the following penalties on Meffé:

- a five-year prohibition of approval in an officer category and/or in a supervisory capacity;
- a seven-year prohibition of approval as a Designated Registered Options Principal or as an Alternate Registered Options Principal;
- a four-month suspension of approval for trading options;
- the requirement to successfully pass the following courses within a 12-month period as a condition to the maintenance of his approval to trade options after the four-month suspension period:
 - Derivatives Fundamentals; and
 - Options Licensing Course;
- a twelve-month close supervision period; and
- a fine in the amount of \$45,000.

Meffé has also agreed to pay costs in the amount of \$5,000 incurred by the Association in connection with this matter.

Summary of Facts Meffé was approved as a registered representative with Financial (Lévesque, Beaubien Geoffrion Inc. at the time) on or about 23 February 1987. In April 1987, he qualified for options trading and, in December 1988, for futures contracts. In June 1994, he was approved as Vice-President (trading) and, in November 1996, as an Alternate Registered Futures Options Principal (ARFOP). On or about May 4, 1999, he was also approved as an Alternate Registered Options Principal (AROP).

The misconduct of which Mr. Meffé is accused was brought to the knowledge of the IDA Staff in 2004 in 2005, in the course of

investigations into the conduct of other representatives.

Towards the end of 2000, P and S, two representatives working as a team in the same branch as Meffé, began to open options accounts on behalf of clients of the team to include options trading in their investment strategies. However, neither of them was then authorized by the Association to trade options.

They would recommend the strategies to their clients, would complete the New Client Application Forms for options accounts and related documentation themselves, and would then have them signed by Meffé, an authorized representative for options at their branch. In February 2001, when the accounts of 84 of their clients were to be coded for options, it was suggested that P and S should team up temporarily with Meffé, who was registered for options trading. Meffé agreed to act as a registered options representative for the clients of P and S. The Designated Registered Options Principal approved a temporary arrangement in February 2001 until such time as P could complete the required training and obtain the registration to trade options. The ITAB representative code identified with P and Meffé was created.

According to the arrangement agreed upon, the accounts documentation for the ITAB code would be approved by Meffé during this period and clients trading options under the ITAB code would deal solely with Meffé, who was responsible for explaining the option strategy and obtaining client approvals.

For clients who opened options accounts between December 2000 and October 2001, Meffé systematically signed the account opening documentation in his capacity as representative without ever communicating with the clients or verifying what their real risk tolerance and investment objectives were. During this period, he requested the opening of some one hundred options accounts on behalf of clients of the team.

Many of the New Client Application Forms specified that the objective of the account was to “reduce the risk” although the types of strategies for which authorization was requested entailed a high degree of risk.

At the beginning of the arrangement, Meffé effected the trades requested by P and S in the entry order system to which he had access, without communicating with the clients to obtain their authorization before each options trade or to ensure the appropriateness of the trades requested for them by P and S.

In the following months, as Meffé was not always available, P turned to the assistant branch manager, who also had access to the entry order system. From then on, whenever P had options trades to execute on behalf of clients under the ITAB code, he processed them

himself in the entry order system at the assistant branch manager's workstation, without reference to Meffé.

The large majority of trades under the 1TAB code for the period in which neither P nor S was authorized by the Association to trade options was processed from the assistant branch manager's workstation. During this period, more than 1,100 trades were executed for approximately 100 clients.

However, Meffé received a copy of the daily commission reports for the 1TAB code and could therefore take note of all the options trades which he himself had not entered into the system.

Despite reminders from the Compliance Department regarding his responsibilities to the clients of the 1TAB code, neither P nor S or Meffé changed their way of operating.

Many clients of the P and S team ended up with very large positions in NASDAQ index options which did not suit them and resulted in significant losses.

On or about April 10, 2002, a meeting was called by the Compliance Department to confront the representatives concerned with various problems identified in many accounts of the team's clients.

The wronged clients received substantial sums in compensation.

Thereafter, Meffé was severely reprimanded by Financial.

On or about August 5, 2003, Meffé lost his approval as an AROP and an ARFOP, but remained registered as a vice-president and approved representative for options and futures contracts with Financial.

Meffé is currently registered as an approved representative for futures contracts.

Kenneth A. Nason
Association Secretary