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# INVESTMENT INDUSTRY REGULATORY ORGANIZATION OF CANADA

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THE DEALER MEMBER RULES OF THE INVESTMENT INDUSTRY REGULATORY ORGANIZATION OF CANADA AND

# **NOTICE OF HEARING**

**MILAD NASSIF** 

**TAKE NOTICE** that, pursuant to Part 10 of Rule 20 of the Investment Industry Regulatory Organization of Canada (IIROC) and s. 1.9 of Schedule C.1 to Transition Rule No. 1, a hearing will be held before a hearing panel of IIROC (Hearing Panel) on March 26, 2014, at 10:00 a.m., or as soon thereafter as the hearing can be heard, in the IIROC Board Room, at 5 Place Ville-Marie, Suite 1550, Montréal, Québec.

**TAKE FURTHER NOTICE** that, pursuant to Rule 6.2 of the Dealer Member Rules of Practice and Procedure, the hearing shall be designated on the:

The Standard Track
The Complex Track

**THE PURPOSE OF THE HEARING** is to determine whether Milad Nassif (Mr. Nassif) has committed the following contraventions that are alleged by IIROC Staff (Staff):

1. Between September 2010 and December 2011, the Respondent failed to use due diligence to ensure that the acceptance of orders in his account, and in those of his wife and son, was within the bounds of good business practice contrary to IIROC Rule 1300.1(o).

# **PARTICULARS**

**TAKE FURTHER NOTICE** that the following is a summary of the facts alleged by Staff and which are to be relied upon at the hearing of this matter:

#### SUMMARY

- 1. Between September 2010 and December 2011 (the material period), Mr. Nassif, who was then employed with CTI Capital Securities Inc. (CTI), effected numerous trades in his margin account, in the margin and RRSP accounts of his spouse, Mrs. AD, and in the margin account of his son, Mr. EN, whereas these accounts did not have sufficient funds or margins to cover the trades and whereas no effort was made to ensure adequate settlement of these trades, thus engaging in the practice commonly known as "free-riding";
- 2. In so doing, the Respondent also contravened the rules applicable to margin accounts and RRSP accounts, in that he:
  - a. neglected or refused to maintain a sufficient margin in the margin accounts;
  - b. neglected or refused to submit to the margin calls issued by the CTI Compliance Department;
  - c. contravened the fiscal rules applicable to RRSP accounts by placing these accounts in debt positions.

#### THE REPRESENTATIVE MILAD NASSIF

- 3. At all material times, Mr. Nassif was employed with CTI as an investment advisor and was under close supervision;
- 4. At all material times, Mr. Nassif held authorizations to trade for the accounts of his spouse, Mrs. AD, and his son, Mr. EN;
- 5. On October 16, 2013, Mr. Nassif left his job with CTI, effective that same day, and is no longer employed with an IIROC-regulated firm.

## THE ACCOUNTS OF MRS. AD

6. Mrs. AD had three (3) accounts with CTI:

<b>Account Holder</b>	Account No.	Account Type
Mrs. AD	4FXXX9E/F	CDN AND US MARGIN
Mrs. AD	4FXXX9S	RRSP

Mrs. AD	4FXXX9R	RRSP	benefiting
		SPOUSE	

- 7. As previously stated, Mr. Nassif held authorizations to trade for these three (3) accounts and carried out all trades;
- 8. On numerous occasions during the material period, Mr. Nassif executed trades in these accounts when the accounts did not have the necessary funds or cash to purchase securities and, on the transaction settlement date, he made no effort to deposit the required funds or cash to pay for the purchases, thus engaging in free-riding;
- 9. Moreover, during the material period, Mr. Nassif executed trades in the margin account of Mrs. AD, transactions that did not respect the margin rate prescribed by regulation, thus repeatedly placing the account in a deficit margin position;
- 10. On numerous occasions during the material period, Mrs. AD's margin account was the object of margin calls, without Mrs. AD or Mr. Nassif depositing the sums required under the terms of these margin calls;
- 11. During the material period, there were approximately 66 margin calls on Mrs. AD's margin account;
- 12. As an example, on September 2, 2010, while Mrs. AD's margin account was the object of a margin call that had yet to be rectified, Mr. Nassif purchased 10,000 shares in Advanced Micro Device for a net amount of \$58,429;
- 13. On the settlement date, namely September 7, 2010, Mr. Nassif made no effort to ensure adequate settlement of this purchase;
- 14. For the month of September 2010, there were 32 purchases of securities in Mrs. AD's margin account, for a total value of \$2,107,739.10 and sales of \$2,086,475.45, whereas the estimated market value of the securities in the account was \$55,377.61 with an estimated equity of \$7,639.52 as at September 30, 2010;
- 15. The near totality of the trades effected in Mrs. AD's margin account that month were a function of free-riding, with Mr. Nassif making no effort to ensure the adequate settlement of these purchases, contenting himself with rapidly selling off the securities thus purchased;
- 16. Moreover, during the material period, Mr. Nassif effected trades in Mrs. AD's RRSP accounts whereas these accounts did not have the funds or the necessary liquidity

- to purchase securities, thus repeatedly placing the accounts in a debit position, contrary to the rules and the fiscal legislation applicable to this type of account;
- 17. Mr. Nassif effected purchases in Mrs. AD's RRSP account no. 4FXXX9S, when the account liquidity was less than the sum of the purchases and the RRSP portfolio value was substantially less than the sum of the trades;
- 18. Mr. Nassif was doing day trading in this RRSP account, without freeing up sufficient cash to cover the purchases, contenting himself with closing out said position before the markets closed;
- 19. As an example, on September 15, 2011, Mr. Nassif purchased 4000 shares of Research in Motion through this RRSP account, a net value of \$116,909, whereas the account liquidity at the time of the purchase was \$972;
- 20. The portfolio's value as at August 31, 2011 was \$46,159, with a cash credit balance of \$1343.93, for current holdings of \$47,503.87;
- 21. The findings were the same in the spouse's RRSP account.

#### THE ACCOUNT OF MR. EN

- 22. Mr. EN held the CND/US margin account bearing no. 4FXXX4E/F at CTI;
- 23. Mr. Nassif had an authorization to trade for this account and, during the material period, executed all the transactions in this account;
- 24. On numerous occasions during the material period, Mr. Nassif effected trades in this account when the account did not contain the funds or cash necessary to complete the share purchase, and on the settlement date for the share purchase, did not deposit the funds or cash required to pay for the purchase, thus engaging in free-riding;
- 25. What's more, during the material period, Mr. Nassif executed trades in this account that contravened the margin rate prescribed in the regulations, thus repeatedly placing the account in a deficit margin position;
- 26. On numerous occasions during the material period, Mr. EN's margin account was the object of margin calls, without Mr. EN or Mr. Nassif depositing the sums required in accordance with the terms of these margin calls;
- 27. More specifically, 34 margin calls were issued by the CTI Compliance Department on a total of 56 trades effected by Mr. Nassif.

# **ACCOUNT OF MILAD NASSIF**

- 28. Mr. Nassif held the CND/US margin account bearing no. 4FXXX1F/E at CTI;
- 29. During the material period, the trading in this account was concentrated mainly in the month of November 2010;
- 30. During the material period and especially during the month of November 2010, Mr. Nassif effected trades in this account when it did not contain the funds or cash necessary to complete a stock purchase and, on the settlement date for the stock purchase, Mr. Nassif did not deposit the funds or cash required to pay for the purchase, thus engaging in free-riding;
- 31. What's more, during the material period, Mr. Nassif executed trades in this account that contravened the margin rate prescribed in the regulations, thus repeatedly placing the account in a deficit margin position;
- 32. On numerous occasions during the material period, Mr. Nassif's margin account was the object of margin calls, without Mr. Nassif depositing the sums required in accordance with the terms of these margin calls;
- 33. As an example, on November 2, 2010, while Mr. Nassif's margin account was under a margin call for a sum of \$5,808.00, Mr. Nassif proceeded with the following purchases:

Advanced Micro Device: US \$37,200;

• Caterpillar: US \$160,067.20;

• Freeport McMoRan Copper & Gold: US \$97,277.50;

Radian Group: US \$62,491.67.

- 34. Mr. Nassif should have rectified the margin call in his account before making any other purchases;
- 35. Mr. Nassif's margin account had a deficit margin of \$7,867.30 as at November 30, 2010; yet during that month, he made purchases worth a total of \$2,300,000 while the equity in the portfolio was \$3,682.28 on October 31, 2010 and \$2,450.27 on November 30, 2010;
- 36. Mr. Nassif did not make any deposits or any contributions to this account in November 2010;

- 37. In November 2010, Mr. Nassif received eight (8) margin calls on his account, without these margin calls being rectified;
- 38. From September 2010 to December 2011, Mr. Nassif did not make any financial contribution to his margin account or provide any valid guarantees to secure his purchases.

#### **OTHER CONSIDERATIONS**

- 39. During the material period, the CTI Compliance Department issued an approximate total of 116 margin calls to Mr. Nassif for the accounts of Mrs. AD, Mr. EN and Mr. Nassif;
- 40. Between September 2010 and September 2011, Mr. Nassif executed over 900 trades;
- 41. During the material period, the only financial contributions made by Mr. Nassif to the aforementioned accounts were the deposit of a sum of \$16,000 to Mrs. AD's margin account, and a sum of \$20,000 to the RRSP account of Mrs. AD's spouse;
- 42. In the course of his interview as part of IIROC's investigation, Mr. Nassif admitted knowing the rules applicable to RRSP accounts, admitting that an RRSP account cannot be in a debit position;
- 43. He also admitted having made no other financial contributions to the aforementioned accounts other than those stated above;
- 44. Although Mr. Nassif indicated, in the course of his interview, that he always intended to pay for his purchases, in actual fact, he practically never deposited the funds or guarantees required to ensure the adequate settlement of his trades.

## **GENERAL PROCEDURAL MATTERS**

**TAKE FURTHER NOTICE** that the hearing and related proceedings shall be subject to the Rules of Practice and Procedure governing the Dealer Members of IIROC (the Rules of practice and procedure).

**TAKE FURTHER NOTICE** that, pursuant to Rule 13.1 of the Rules of Practice and Procedure, the Respondent is entitled to attend and be heard, be represented by counsel or an agent, call, examine and cross-examine witnesses, and make submissions to the Hearing Panel at the hearing.

#### RESPONSE TO NOTICE OF HEARING

**TAKE FURTHER NOTICE** that the Respondent must serve upon IIROC Staff a Response to the Notice of Hearing in accordance with Rule 7 of the Rules of Practice and Procedure, within twenty (20) days (for a Standard Track disciplinary proceeding) or within thirty (30) days (for a Complex Track disciplinary proceeding) from the effective date of service of the Notice of Hearing.

# FAILURE TO RESPOND OR ATTEND HEARING

**TAKE FURTHER NOTICE** that, if the Respondent fails to serve a Response or attend the hearing, the Hearing Panel may, pursuant to Rules 7.2 and 13.5:

- (a) proceed with the hearing as set out in the Notice of Hearing, without further notice to the Respondent;
- (b) accept as proven the facts and contraventions alleged by Staff of IIROC in the Notice of Hearing; and;
- (c) order penalties and costs against the Respondent pursuant to Dealer Member Rules 20.33, 20.34 and 20.49.

## **PENALTIES & COSTS**

**TAKE FURTHER NOTICE** that, if the Hearing Panel concludes that the Respondent did commit any or all of the contraventions alleged by IIROC Staff in the Notice of Hearing, the Hearing Panel may, pursuant to Dealer Member Rules 20.33 and 20.34, impose any one or more of the following penalties:

# Where the Respondent is/was an Approved Person:

- (a) a reprimand;
- (b) a fine not exceeding the greater of:
  - (i) \$1,000,000 per contravention; and
  - (ii) an amount equal to three times the profit made or loss avoided by such Approved Person by reason of the contravention;

- (c) suspension of approval for any period of time and upon any conditions or terms;
- (d) terms and conditions of continued approval;
- (e) prohibition of approval in any capacity for any period of time;
- (f) termination of the rights and privileges of approval;
- (g) revocation of approval;
- (h) a permanent bar from approval with IIROC;
- (i) any other fit remedy or penalty.

# Where the Respondent is/was a Dealer Member:

- (a) a reprimand;
- (b) a fine not exceeding the greater of:
  - (i) \$5,000,000 per contravention; and;
  - (ii) an amount equal to three times the profit made or loss avoided by the Dealer Member by reason of the contravention;
- (c) suspension of the rights and privileges of the Member (and such suspension may include a direction to the Member to cease dealing with the public) for any period of time and under any conditions or terms;
- (d) terms and conditions of continued Membership;
- (e) termination of the rights and privileges of Membership;
- (f) expulsion of the Dealer Member from membership in the IIROC; or
- (g) any other fit remedy or penalty.

**TAKE FURTHER NOTICE** that if the Hearing Panel concludes that the Respondent did commit any or all of the contraventions alleged by Staff in the Notice of Hearing, the Hearing Panel may,

pursuant to Dealer Member Rule 20.49, assess and order any investigation and prosecution costs determined to be appropriate and reasonable in the circumstances.

Dated at Montréal, March 10, 2014.

(S) CARMEN CRÉPIN

CARMEN CRÉPIN VICE-PRESIDENT, QUÉBEC

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