

2012 Enforcement Report

Protecting Investors and Fostering Fair and Efficient Capital Markets Across Canada

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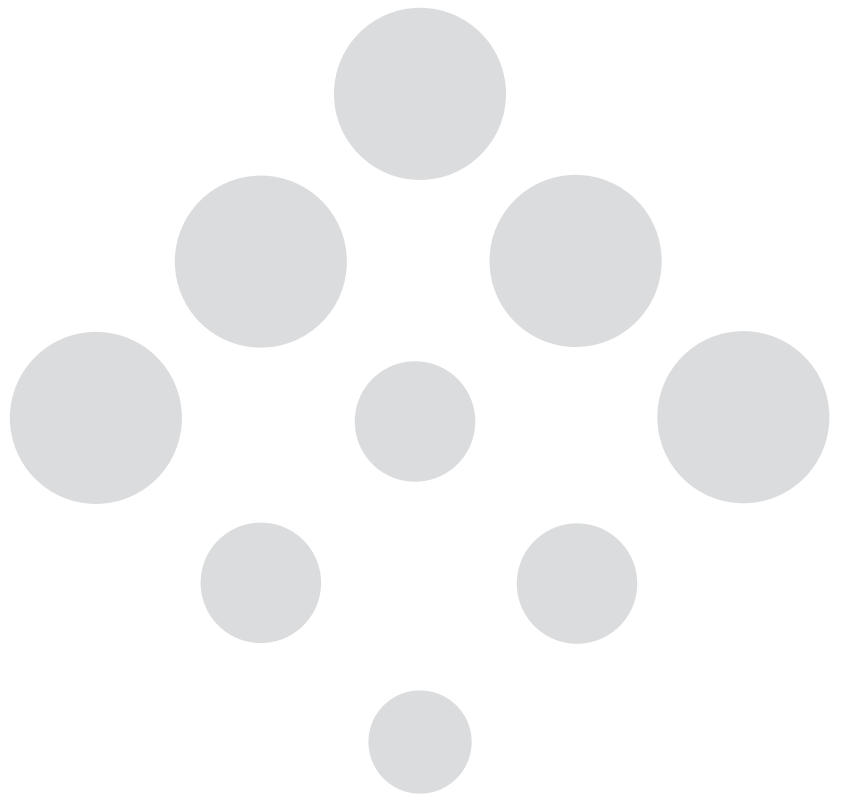


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Overview

The Investment Industry Regulatory Organization of Canada (“IIROC”) is a national, self-regulatory organization (“SRO”) responsible for the oversight of Canada’s 209 registered investment dealers (“investment dealers”), 11 trading marketplaces, as well as the approximately 26,000 IIROC approved “client facing” individuals (“investment advisors”) and 3,000 IIROC-approved individuals responsible for the day-to-day supervision of the investment dealers’ operations (“supervisors”) (collectively referred to as “individual registrants”).

Investment dealers and individual registrants agree to be subject to IIROC’s jurisdiction as a condition of their membership in IIROC or approval to work in the investment industry, respectively.

IIROC’s Enforcement Department (“Enforcement”) plays a key role in IIROC’s mandate to protect investors and foster fair and efficient capital markets across Canada. Enforcement’s timely identification, investigation and prosecution of regulatory misconduct promotes a culture of compliance within the investment industry by sending strong regulatory messages that deter potential wrongdoers. We also seek to detect and pre-emptively disrupt potential misconduct before investors are harmed.

FAIR

IIROC’s enforcement process is fair and impartial. Prosecutions are based on thorough investigations, and hearings are transparent and administered by impartial Hearing Panels, chaired by legal professionals.

EFFECTIVE

Effective enforcement of securities laws and IIROC regulations protects investors by deterring wrongdoers and protecting the integrity of the Canadian capital markets.

TIMELY

Timely investigation and prosecution of misconduct protects investors and strengthens the investing public’s confidence in self-regulation.

Message from the President and CEO



I am pleased to present IIROC's first comprehensive Enforcement Report which highlights our efforts to deliver fair, effective and timely enforcement.

As the self-regulatory organization responsible for the oversight of all investment dealers and trading activity on debt and equity marketplaces in Canada, IIROC's mandate is to protect investors and foster fair and efficient capital markets across Canada. In discharging this mandate, we actively pursue those engaging in unfair, misleading and abusive practices through our enforcement activities.

This report provides a high level overview of our enforcement priorities, the cases we have investigated and prosecuted and our strategic focus on cases involving seniors and suitability. It also summarizes our ongoing efforts to enhance the efficiency and effectiveness of our enforcement process.

While prosecuting regulatory misconduct is one of IIROC's enforcement priorities, so too is the prevention of harmful activity. We do so through effective compliance reviews, the setting of high proficiency standards and continuing education requirements, and promoting a culture of compliance among the firms and individuals we regulate. In addition, our Enforcement team works closely with other regulatory staff to identify and address potential harm.

In keeping with our commitment to transparency and accountability, we will publish updated Enforcement Reports annually.

I want to acknowledge the entire Enforcement management team and staff across the country for their dedication and perseverance to protecting the investing public and enhancing confidence in the Canadian capital markets.

A handwritten signature in blue ink, appearing to read "Susan Wolburgh Jenah". The signature is fluid and cursive.

Susan Wolburgh Jenah

Message from Senior Vice President, Enforcement, Member Policy and Registration



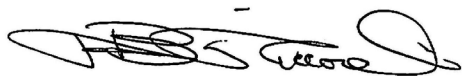
I am pleased to report on our enforcement activities and the positive impact that they have had on IIROC's ongoing effort to enhance investor protection and market integrity.

Since IIROC's creation in 2008, the Enforcement management team has focused on improving the efficiency and effectiveness of our enforcement activities through the identification of clear enforcement priorities and the adoption of revised case selection criteria that are aligned with these priorities. We have also implemented operational processes that have streamlined our investigations and prosecutions.

Moving forward, we are committed to finding ways to further strengthen and streamline our enforcement processes to better detect and disrupt potential regulatory misconduct, as well as identify and react to harmful market activity on a more timely basis.

We are also working toward the completion of key enforcement initiatives including the finalization of our new consolidated enforcement rules, the development of new sanction guidelines, improved complaint trend analysis and the ongoing enhancement of our market-related enforcement capabilities.

IIROC will continue to work cooperatively with other domestic and international regulatory authorities, including the Canadian Securities Administrators, in order to better protect the investing public.

A handwritten signature in black ink, appearing to read 'Paul Riccardi', with a stylized flourish at the end.

Paul Riccardi

Securities Regulation in Canada

Canadian Regulatory Framework

The Canadian investment industry is overseen by a group of regulatory organizations comprised of the 10 provincial and 3 territorial securities commissions (collectively the “Canadian Securities Administrators” (CSA)), as well as two SROs, IIROC and the Mutual Fund Dealers Association (MFDA). While each member of the CSA, as a statutory regulator, has ultimate authority over the investment industry in its respective province or territory, IIROC’s national regulatory activities, including enforcement, play an important role in this collective regulatory framework.

IIROC’s History

Oversight of investment dealers and marketplaces dates back to the creation of the Bond Dealers Association in 1916. Since that time, a number of organizations have been responsible for this important aspect of regulation. IIROC was created in 2008 through the merger of two organizations responsible for investment dealers (the Investment Dealers Association, or IDA) and market regulation (Market Regulation Services Inc., or RS). The merger modernized, simplified and strengthened Canada’s self-regulatory system through the elimination of the fragmented oversight of investment dealers and marketplaces.

IIROC’s Role in Domestic Securities Regulation and Enforcement

IIROC’s regulatory activities, which are overseen by the CSA and are undertaken in pursuit of IIROC’s mandate, cover a broad spectrum including rule development, registration (including continuing education and proficiency requirements), market surveillance, compliance reviews and enforcement.

Enforcement plays an important role in our organization’s ongoing effort to protect the investing public by investigating and prosecuting wrongdoers. Enforcement staff also works collaboratively with enforcement staff from the CSA, the MFDA, as well as policing agencies, by sharing information and, in some cases, coordinating investigations or participating in joint investigations and prosecutions.

IIROC’s Work Abroad

In addition to our domestic activities, Enforcement works with foreign regulators to coordinate matters of mutual interest.

One such case in 2012 saw IIROC work with US immigration authorities and the RCMP to facilitate the return to Canada of a former investment advisor who fled the country after being prosecuted by IIROC.

Enforcement's Strategic Priorities and Initiatives

The Canadian financial markets are constantly evolving. Enforcement is focused on adapting to these changes to ensure it contributes to IIROC's goals of enhancing investor protection and promoting fair and efficient capital markets. Toward that end, Enforcement has identified strategic priorities and developed initiatives to achieve these priorities in support of IIROC's Strategic Plan.

Case Selection

IIROC receives approximately 1,500 complaints from the investing public each year and we conduct between 60 to 70 disciplinary hearings annually. It is critical that we allocate enforcement resources to those cases that involve harm to investors and/or send strong deterrent messages that are aligned with IIROC's strategic priorities. We have implemented new case selection criteria to ensure that Enforcement's activities and resources are focused on the cases that ultimately promote investor protection and foster fair and efficient markets.

Protection of Seniors

Given that the average age of Canadian investors continues to rise, the protection of seniors is a strategic priority, as evidenced by the fact that one third of IIROC's disciplinary proceedings commenced in 2011 and 2012 were related to investors that were 60 years of age or older ("senior investors"). As a result of this emphasis and the revision of our case selection criteria, we expect that cases involving senior investors will continue to represent a significant portion of Enforcement's total prosecutions in the future.

Unsuitable Trade Recommendations

The issue of unsuitable trade recommendations is a persistent and significant problem in the Canadian investment industry, as our statistics show. While the majority of cases involving senior investors involve unsuitable trade recommendations, this issue is not limited to seniors.

While the question of what makes a trade recommendation unsuitable is different in every situation, Enforcement's core message to individual registrants remains consistent - that they must deal honestly, fairly and in good faith with their clients. This includes providing trade recommendations that are suitable in light of their clients' risk tolerance, investment objectives, time horizon and personal/financial circumstances. IIROC's enforcement activities also focus on whether an investment dealer has taken reasonable steps to ensure that the material risks of products they recommend are clearly communicated to, and understood by, their clients, particularly in the case of complex securities.

In recent years, Enforcement increased its efforts and resources to more aggressively pursue suitability cases. Over the past three years, we have progressed from taking few suitability cases forward to prosecutions to making them a strategic priority. As a result of Enforcement's focus on this important

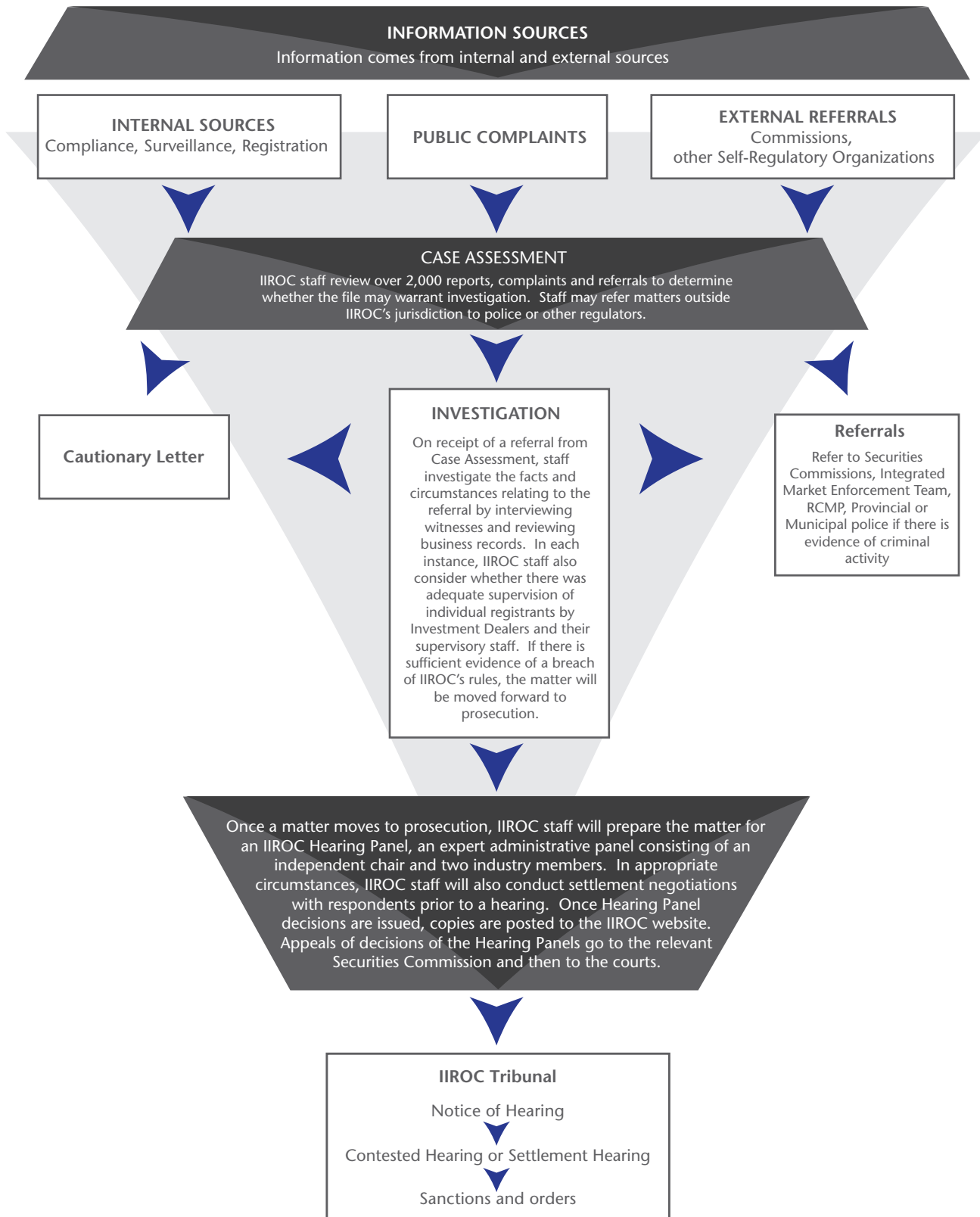
investor protection issue, nearly one-third of our prosecutions in 2012 involved cases of unsuitable trade recommendations.

Enforcement's focus on cases involving seniors and/or unsuitable recommendations reflects the alignment of enforcement activities with IIROC's overall strategic priorities and sends a strong regulatory message to registrants regarding retail investor protection.

Market Integrity

In addition to enforcing rules relating to the conduct of investment dealers and individual registrants, the pursuit of market-related cases that serve to shape the behaviour of market participants to enhance fair, efficient and competitive capital markets is an IIROC priority. Toward that end, Enforcement staff work closely with IIROC's Market Surveillance and Trade Review & Analysis staff as well as CSA enforcement staff to identify and address manipulative and deceptive trading activities that undermine investor confidence in the fairness and integrity of our capital markets.

IIROC's Enforcement Process



Disciplinary Proceedings

Based on the facts, as well as the conclusions drawn from its investigation, Enforcement staff decides whether to prosecute an investment dealer and/or an individual registrant involved in alleged misconduct. Where the decision is made to prosecute, the case will result in either a contested hearing or a settlement hearing.

A settlement hearing is held when an investment dealer or individual registrant admits the facts that prove the rule violation(s) and accepts the appropriate penalty. Much like other professional regulatory bodies, the majority of IIROC's disciplinary matters are resolved by way of settlement agreements, all of which must be approved by an IIROC Hearing Panel at a settlement hearing.

In cases where the investment dealer or individual registrant does not acknowledge that they violated IIROC rules or securities laws, a contested hearing is held. In a contested hearing, IIROC's Enforcement Counsel and the respondent's legal counsel call evidence at an IIROC Hearing Panel. The Hearing Panel, which is normally comprised of one former judge and two active or retired industry members, decides whether IIROC has made its case against the respondent and if so, what the appropriate penalty is.

If an investment dealer or individual registrant is found to have breached IIROC Rules, the Hearing Panel may order:

- fines of up to \$5 million per offence, in the case of an investment dealer;
- fines of up to \$1 million per offence, in the case of an individual registrant;
- the disgorgement of any profits, a period of suspension, or in more severe cases, the permanent barring of an individual registrant or investment dealer from the investment industry; and/or
- the payment of the costs IIROC incurred to investigate and prosecute the disciplinary matter.

If IIROC or a respondent disagrees with the Hearing Panel's finding of liability and/or the penalty decision, they have the right, generally, to appeal the decision to the Securities Commission in the province where the hearing was held.*

* IIROC does not have the ability to appeal its own decisions in Alberta.

Integrated Enforcement Model

To ensure that enforcement's activities serve as an effective deterrent to potential wrongdoers, they must be both timely and focused on harmful conduct that undermines investor confidence and/or the integrity of the capital markets. As such, Enforcement staff has adopted a new, integrated investigation model which, in conjunction with our revised case selection criteria discussed earlier, serves to enhance investor protection through deterrence.

Using this new integrated approach, IIROC's investigators and Enforcement Counsel collaborate from the beginning of an investigation through to its ultimate conclusion. As a result, our investigations and prosecutions are more focused and efficient, contributing to Enforcement's overall effectiveness.

Investment Dealers' Obligation to Report Client Complaints to IIROC

Early notification and detection of potential misconduct contributes to effective enforcement. Investment dealers are required to immediately inform IIROC of all non-service related customer complaints, disciplinary actions and civil claims lodged against them or any of their individual registrant(s) by another regulator or individual. Notification is made through ComSet – our Complaints and Settlements online tool – and requires dealers to provide all of the details of the resolution of any of these matters.

To enhance the efficiency and effectiveness of this mandatory reporting regime and any ensuing enforcement activities, IIROC has revised the ComSet reporting rules. We require investment dealers to provide IIROC with more complete documentation, including copies of written complaints and Know-Your-Client ("KYC") documentation, within days of the investment dealer receiving a client complaint. This additional information enables Enforcement staff to better serve the investing public by performing more timely and thorough assessments of these reportable events to determine whether they warrant further investigation and possible prosecution.

"Early notification and detection of potential misconduct contributes to effective enforcement."

Assisting the Investing Public – IIROC's Complaints & Inquiries Team

Until 2011, Enforcement staff served as the initial point of contact for members of the public who had questions or concerns. Many of these calls related to client service issues or were general enquiries that did not involve regulatory misconduct. To better serve the investing public and make more efficient use of Enforcement staff, IIROC created a dedicated Complaints and Inquiries (C&I) Team in 2011. The C&I Team, which is staffed with knowledgeable and experienced professionals, serves as IIROC's front-line resource for investors and members of the public, providing assistance and information. While the creation of the C&I Team has allowed for more effective, streamlined and timely responses to investors in general, the C&I Team has also enabled operational departments, including Enforcement, to focus on their core regulatory functions.

The C&I Team also collects and analyses information obtained from callers, with the goal of identifying emerging trends and issues in order to develop appropriate, proactive and timely responses. The creation of the C&I Team has been highly successful. In its first full year of operation, it has responded to approximately 1,400 queries and was the primary, objective source of information for investors during three major cases investigated by IIROC (MF Global Canada Co., First Leaside Securities Inc. and Peregrine Financial Group of Canada, Inc.).

Case Summaries

IIROC rule violations fall into a number of broad categories. The following summaries represent examples of the most significant cases from 2011 and 2012 in each of these categories and illustrate Enforcement's strategic focus. A complete list of our enforcement cases undertaken in 2011 and 2012 can be found in Appendix 1.

Seniors and Unsuitable Recommendations

Investment advisors have an obligation to "know their client" and to ensure, based on their understanding of the client's investment objectives, risk tolerance and time horizon, that their investment recommendations are suitable. Allegations of unsuitable investment recommendations are one of the most common client complaints each year, particularly among senior investors (investors over 60). The following cases illustrate these issues.

Kenneth Gareau [2011] – Saskatchewan

This case involved investment advisor Kenneth Gareau making unsuitable recommendations to two retired couples. Following a contested hearing, the IIROC Hearing Panel found that the investment advisor failed to ensure that the recommendations he made to his clients were suitable for them. In its decision, the Hearing Panel provided an extensive review of the law relating to suitability and an advisor's obligation to KYC. The Hearing Panel found that a portfolio intended to fund a client's retirement should stress capital preservation, and that the securities recommended in this case failed to do so and were therefore unsuitable.

In its written decision, the Hearing Panel made four key findings:

1. An advisor's suitability obligation is his/hers alone and cannot be transferred to the client.
2. The suitability obligation is a key investor protection rule. Furthermore, even where a client instructs an advisor to purchase unsuitable investments, the advisor still has a responsibility to warn the client of the risks created by their investment decisions and instructions.
3. An investor's risk profile is not simply a matter of looking at numbers on a New Client Application Form (NCAF). In other words, the NCAF is not the determining factor but rather the starting point in the suitability analysis. Neither the KYC obligation nor the suitability obligation can be fulfilled by an advisor who simply completes a poorly-constructed NCAF or follows a procedure in a perfunctory fashion. Investment advisors must recognize that while the NCAF serves as starting point, client circumstances change.
4. KYC and suitability assessments must be based on the facts that existed at the time the investment was contemplated and not in light of subsequent, unforeseeable events. An unsuitable recommendation cannot be remedied by future events despite the fact that the customer did not lose money. The credibility of the securities market is damaged nonetheless.

The Hearing Panel imposed the following sanctions on Gareau:

- A fine of \$100,000, disgorgement of \$47,383, costs of \$20,000;
- Prohibition from seeking IIROC re-registration for one year;
- Requirement to retake the Conduct and Practice Course before he could be re-registered; and
- Imposition of strict supervision for one year, followed by close supervision for six months.

Randall Harding [2011] – Ontario

The investment advisor Randall Harding failed to use due diligence to ensure that his investment recommendations were suitable for a client. Harding was also accused of executing unauthorized transactions in the client's account. In this case, the client was a 70-year-old widow whose husband had handled all financial matters. When the client's husband died suddenly in 1997, she was financially secure, owned her home mortgage-free and had savings of over \$300,000. She was, however, left to deal with financial issues that she had difficulty understanding and was ill-equipped to manage.

Although the client signed the NCAF, which indicated that she wanted to hold some high-risk investments, it was clear that she did not understand the implications of holding high risk securities and, in fact, relied upon her advisor. The investment advisor engaged in extensive margin trading, including short selling bonds, as well as recommending highly speculative penny stocks. The client lost more than \$150,000 over a four-year period.

The Hearing Panel's key conclusion was that a signed NCAF, even with investment objectives that are somewhat aligned with the alleged unsuitable trading, does not transfer the responsibility to determine the suitability of the advisor's recommendations to the client. The Hearing Panel stressed the positive steps required of the advisor and the high degree of responsibility that the investment advisor bears.

The Hearing Panel stated:

"Regardless of that acknowledgment by the client [on the NCAF], it is the responsibility of an [investment advisor] to ensure that appropriate investment objectives are set out for the client . . . the duty of care with respect to the recommendation of suitable investments is placed upon the [investment advisor] who is better placed to understand the risks and benefits of any particular investment product. That duty cannot be transferred to the client."

The Hearing Panel imposed the following sanctions on Harding:

- a fine of \$125,000, disgorgement of \$17,861, costs of \$25,000; and
- the suspension of Harding's registration approval for five years.

" . . . it is the responsibility of an [investment advisor] to ensure that appropriate investment objectives are set out for the client . . . That duty cannot be transferred to the client."

Know-Your-Client/Know-Your-Product

Investors have the right to expect their advisor to be qualified and understand the products that they recommend. Investment advisors must also ensure that their clients have been informed of, and clearly understand, all of the material risks related to the products that they recommend.

This fundamental obligation becomes even more important when an investment advisor recommends new and/or complex financial products to their clients. If the advisor does not understand the risks associated with the products they are recommending, they will be unable to provide the client with the clear and accurate information necessary to make an informed investment decision.

Terry Dyck [2012] – Ontario

This decision regarding this contested hearing highlights the importance of investment advisors understanding the products that they recommend to their clients, in order to ensure that they are able to accurately assess the suitability of the product. In this case, the advisor did not understand the products recommended, resulting in unsuitable recommendations and client losses.

The investments at issue in this case were leveraged, exchange traded funds (ETFs). For approximately one year, the advisor, Terry Dyck, recommended these complex ETFs to more than one hundred of his clients. Despite the regulatory filings which characterized these ETFs as high risk and speculative, the advisor considered leveraged ETFs to be medium risk. While he took some steps to learn about this product, he failed to exercise sufficient due diligence and appreciate the impact of the product's use of high-risk trading strategies and extensive leverage.

As a result of his failure to adequately understand these products, the investment advisor was unable to properly assess the suitability of these products for his clients, which resulted in him making unsuitable trade recommendations. Accordingly, the Hearing Panel imposed a fine of \$20,000, as well as a seven year suspension.

Direct Market Access - Trade Supervision

Direct trading access to equity marketplaces is normally restricted to investment dealers that have entered into access agreements with equity marketplaces. Certain qualified clients of these investment dealers may, however, trade directly on a marketplace by entering into a Direct Market Access ("DMA") agreement with the investment dealer. Under these circumstances, the investment dealer is responsible for supervising the trading activity of its DMA clients in order to ensure that the DMA client follows IIROC's market integrity rules.

*Credit Suisse Securities (Canada) Inc. [2011] – Ontario and
Morgan Stanley Canada [2011] – Ontario*

These two cases highlight the obligations of investment dealers providing DMA to clients, as well as the fact that the investment dealer remains fully responsible for all of the DMA client's orders entered on the marketplace. As such, the investment dealer must be aware of, and specifically address the additional risks posed by DMA clients by ensuring that they have effective and fulsome policies and procedures in place that are designed to detect and address problematic DMA trading behaviour.

Credit Suisse Canada failed to adequately supervise trading by a DMA client, who entered potentially manipulative trades in several securities. The trading, which occurred over a seven-month period, went undetected by the investment dealer because of its failure to perform effective and timely post-trade monitoring of its client's DMA trading activity. The investment dealer admitted its failure and settled the matter with IIROC by agreeing to pay a \$150,000 fine.

In a similar case, Morgan Stanley settled with IIROC for \$175,000 after failing to properly supervise potentially manipulative trading by an institutional DMA client – a hedge fund – that extended over an 11-month period. In this case, the investment dealer detected some of the potentially manipulative trading, but failed to adequately address the DMA client's manipulative behaviour once it was detected.

These cases demonstrate that when an investment dealer provides a client with direct market access to IIROC-regulated marketplaces, the investment dealer remains responsible for supervising the DMA client's trading activities.

BMO Nesbitt Burns Inc. [2012] – Ontario

This case involved the entry of an order on an IIROC-regulated marketplace that was clearly made in error.

On the morning of October 13, 2010, a BMO Nesbitt Burns Inc. ("BMO NB") trader entered a Market-on-Close Order ("MOC Order") to sell 33,000,000 shares of Bank of Montreal ("BMO") stock, when he actually intended to enter an order to sell 33,000 shares. The BMO NB trader did not discover the error until 3:40 p.m., at which point BMO NB immediately called IIROC and the TSX to report the error and seek guidance on the appropriate way to correct the error. Ultimately, the trade was cancelled by the TSX, thereby avoiding significant harm to BMO NB.

Following its investigation, IIROC concluded that BMO NB had insufficient pre-trade filters on its trading system, as well as insufficient procedures in place to review the accuracy of MOC Orders prior to 3:40 p.m. Had an adequate supervision system been in place, the error would have been detected prior to the order being entered on the MOC Facility.

In its decision approving the settlement agreement between IIROC and BMO NB,

the IIROC Hearing Panel observed that:

“[w]hile prompt reporting of the error by (BMO NB) and the action taken by IIROC officials and the TSX avoided significant harm in this particular case, failure to effectively supervise trading can seriously undermine the maintenance of fair and orderly markets. Thus, even though inadvertent, the contravention must be viewed as a very serious one.”

BMO NB agreed to a fine of \$50,000. In addition, BMO NB carried out a thorough review of its policies, procedures and IT systems following the entry of the erroneous MOC Order and implemented a number of changes to its trading supervision system that were designed to prevent a reoccurrence.

This case highlights the importance of effective trade supervision and how it is integral to ensuring fair and orderly markets. Erroneous orders, especially during sensitive pricing periods, can have a significant impact on the market that may adversely affect market participants and undermine the investing public's confidence in the market's integrity.

Manipulative and Deceptive Trading

The Universal Market Integrity Rules (UMIR) prohibit any manipulative and deceptive trading activities on IIROC-regulated marketplaces. In 2012, Enforcement completed several cases involving manipulative and deceptive trading activities, including:

- An IIROC investment advisor failing to act as a gatekeeper and protect the integrity of the market, by entering orders on behalf of his client to maintain the price of a security in order to ensure that a security remained margin-eligible (*David Charles Parkinson, 2012*).
- An IIROC investment advisor entering closing bids in order to maintain the market value of a security held by a substantial number of his clients (*William Geddes, 2012*).
- An individual registrant entering orders to create a high closing bid on a stock, thereby misleading the market as to the actual demand for the security. A trader employed with an investment dealer entered the order to maintain the value of an existing position in the same security held in his firm's inventory account (*James William Watson, 2012*).

In each of these cases, the individual registrant admitted their UMIR rule violation and entered into a settlement agreement with IIROC Enforcement staff, which was later reviewed and approved by an IIROC Hearing Panel.

In a contested matter, *Vinh Phat Nguyen-Qui, 2012*, an individual registrant was found to have violated UMIR's anti-manipulation provisions by entering orders in a way that gave him an unfair advantage over others in the market. The Hearing Panel imposed a two-month suspension of his access to the marketplace as well as a fine of \$20,000. The Hearing Panel also required Nguyen-Qui to retake the *Trader Trading Course*.

“. . . failure to effectively supervise trading can seriously undermine the maintenance of fair and orderly markets.”

Gatekeepers

IIROC registrants, including investment advisors, are gatekeepers. As such, they have an obligation to ensure that activities that may threaten market integrity are identified and dealt with in order to ensure that investor confidence in the markets is not undermined. When advisors fail to identify issues that threaten their clients or the markets generally, they have failed in their gatekeeper obligations. An example of such a failure occurred when investment advisors involved in the Earl Jones matter (the RBC Dominion Securities Inc., Ménard and Leclaire case, discussed below) failed to recognize the issues in that case, which allowed Jones to misappropriate millions of dollars from the firm's clients.

RBC Dominion Securities Inc. (RBC DS), Jean-Pierre Ménard and Serge Leclaire, [2012] – Quebec

Earl Jones, an unregistered individual, referred a number of clients to two investment advisors employed by RBC DS, Jean-Pierre Ménard and Serge Leclaire. Jones held trading authorization over a number of his unrelated client accounts held at RBC DS. Using this authority, Jones defrauded many of his clients by engineering the improper withdrawal of approximately \$3.6 million from 16 of the RBC DS client accounts between 2004 and 2007.

RBC DS and the investment advisors failed to adequately supervise the activity in these accounts, despite clear warning signs, which included:

- the fact that the amount of some of these withdrawals would have resulted in the deregistration of some registered accounts (e.g. RRSP accounts), triggering tax consequences; and
- withdrawals from unrelated accounts, but under the same trading authority, were made within a short timeframe or concurrently with each other.

Had the investment dealer and the investment advisors properly fulfilled their respective gatekeeping functions, they may have prevented Jones from defrauding these individuals.

Ultimately, RBC DS, Ménard and Leclaire admitted that from August 2003 to December 2008 they failed to adequately perform their role as gatekeepers to the capital markets by allowing Jones to hold multiple trading authorizations for multiple, unrelated clients and not questioning some of the withdrawals from certain accounts for which Jones had trading authorization. Pursuant to the settlement agreement with IIROC, Ménard and Leclaire were each suspended for a period of six months and required to pay fines of \$100,000, while RBC DS was required to pay a fine of \$500,000.

Dealer Supervision

IIROC investment dealers have an obligation to supervise the activities of their investment advisors. In light of this obligation, IIROC reviews an investment dealer's supervision of its investment advisor(s) in each case involving allegations of investment advisor misconduct. Where there is evidence of an investment dealer failing to adequately supervise its investment advisors, Enforcement will

commence an investigation and, where appropriate, prosecute the investment dealer and/or the approved person responsible for supervision.

Wellington West Capital Inc. and Lesley Walters-Sagher [2012] – Alberta

Wellington West and branch manager Lesley Walters-Sagher were fined a total of \$190,000 for failing to adequately supervise a group of investment advisors who had recommended unsuitable leveraged exchange traded funds (ETFs) to their clients.

The ETFs sold by the Wellington West investment advisors were classified as high risk in the ETF prospectuses. Walters-Sagher's failure to appreciate this fact precluded her from conducting effective reviews of the investment advisors' trading activities and resulted in Wellington West and Walters-Sagher failing to adequately supervise their investment advisors' activities.

Preventative Actions

While the majority of Enforcement's activities are in response to client complaints, we recognize that investor protection is best achieved when potential misconduct is identified and corrected proactively. IIROC's Enforcement staff does not rely solely on client complaints, which are almost exclusively made after the harm is done. Enforcement staff work collaboratively with their colleagues from IIROC's compliance departments, who regularly review the operational, financial and trading compliance systems of investment dealers in order to proactively address potential wrongdoing before clients or the markets are harmed. The following cases reflect IIROC's ongoing effort to deal with developing situations on a proactive basis.

Peregrine Financial Group Canada, Inc.

In July 2012, Peregrine Financial Group Inc., a US broker-dealer, filed for bankruptcy as a result of the firm's principal defrauding the firm itself. The firm's Canadian subsidiary, Peregrine Financial Group Canada, Inc., was affected by these events and therefore IIROC took immediate steps to protect the clients of the Canadian investment dealer and ensure that the events and actions taken in the U.S. did not adversely impact Canadian clients. Within a week of these events coming to light in the US, all client accounts of the Canadian investment dealer were accounted for and successfully transferred to another IIROC-regulated investment dealer, protecting the assets of the Canadian clients. In addition, Enforcement took steps to suspend the IIROC dealer member.

Barrett Capital Management Inc.

In 2011, Enforcement initiated an investigation of an investment dealer, Barrett Capital Management Inc. (Barrett), after becoming aware of trading irregularities at the firm. After interviewing clients and reviewing trades, investigators concluded that Barrett was involved in an elaborate trading scheme involving unauthorized, discretionary trading and misrepresenting the value of client accounts in order to hide its unauthorized trading. As these were ongoing violations, Enforcement staff's first priority was to stop any further violations and avoid further client harm. Toward that end, Enforcement staff sought and received an order from an IIROC Hearing Panel, prohibiting Barrett from opening any new client accounts and from engaging in any trading activity other than closing or liquidating trades. These steps precluded Barrett from further harming clients. Ultimately, Enforcement staff and Barrett came to a negotiated settlement under which:

- Barrett's IIROC membership was terminated;
- Barrett's principals were suspended for twenty years; and
- Barrett was required to assist in the transfer of its client accounts to other IIROC investment dealers.

"... investor protection is best achieved when potential misconduct is identified and corrected proactively."

MF Global Canada Co.

As a result of MF Global US, an American-registered broker dealer, filing for bankruptcy, its Canadian subsidiary, MF Global Canada Co., failed to maintain the minimum amount of capital required by IIROC rules in November 2011. In response to these events, Enforcement staff brought an application before an IIROC Hearing Panel seeking the immediate suspension of MF Global Canada Co. based on its failure to maintain adequate capital. Following the suspension of the IIROC investment dealer, IIROC took immediate steps to protect the assets of MF Global Canada Co.'s clients by working with the Canadian Investor Protection Fund (CIPF) to obtain a bankruptcy order appointing a trustee in bankruptcy to administer the Canadian accounts and manage their orderly transfer to another IIROC investment dealer. All MF Global Canada customer assets were accounted for because of the collective steps taken by IIROC and CIPF.

Enforcement Statistics

The following statistics summarize a range of information and enforcement-related outcomes between 2009 to 2012 and are included in order to provide additional context.

Complaints

The principal sources of Enforcement's investigations and prosecutions are public complaints reported either directly to IIROC or to investment dealers, who must then convey this information to IIROC via the ComSet system. As such, public complaints are a critical factor in Enforcement's ongoing effort to send strong regulatory messages that deter potential wrongdoers.

Sources of Complaints Received by IIROC Enforcement

Source	2012	2011	2010	2009
Public ^[1]	252	303	409	457
ComSet	1,529	1,285	1,256	1,852
Internal (from other IIROC departments) ^[2]	52	96	128	121
Other SROs and Commissions	26	20	55	86
Other (media, member firms and whistleblowers)	13	2	11	20

Case Assessment Files Opened by Source

Source	2012	2011	2010	2009
Public	252	303	409	457
ComSet	297	415	589	682
Internal (from other IIROC departments)	52	96	128	121
Other SROs and Commissions	26	20	55	86
Other (media, member firms and whistleblowers)	13	2	11	20

Most Common Complaints Received By IIROC and Opened by Case Assessment

Each year, Enforcement compiles complaint data to inform its strategic and operational planning process. The following table shows that unauthorized and discretionary trading, unsuitable investment recommendations and misrepresentation are the most common complaint types.

Type	2012	2011	2010	2009
Unauthorized and discretionary trading	87	153	278	369
Unsuitable investments	224	154	117	229
Misrepresentation	54	64	109	135

[1] Although IIROC receives approximately 1400 calls from the public each year, only a portion of those calls relate to regulatory matters. The decline in public complaints noted in 2011 and 2012 is a direct result of the Complaints and Inquiries Team handling all non-regulatory complaints and referring only regulatory complaints through to Enforcement.

[2] For greater clarity, an "internal" source refers to potential misconduct referred to Enforcement by another IIROC department, such as Business Conduct Compliance, Financial and Operational Compliance, Registrations, Trade Review & Analysis or Trading Conduct Compliance.

Investigations

	2012	2011	2010	2009
Number of investigations conducted	256	213	425	237



Between January 1 and December 31, 2012, Enforcement staff conducted 256 investigations across Canada

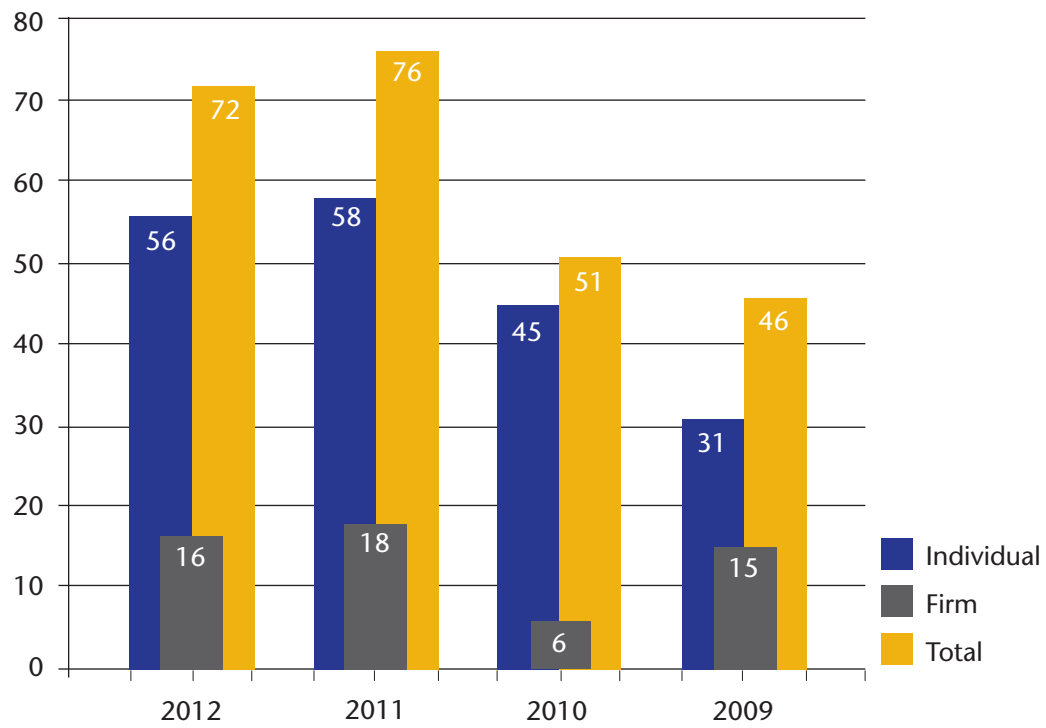
Prosecutions

	2012	2011	2010	2009
Number of prosecutions initiated	129	85	103	72



Between January 1 and December 31, 2012 Enforcement staff initiated 129 prosecutions across Canada

Prosecution Decisions Rendered – by Respondent Type



Regulatory Violations Prosecuted by IIROC

Individual – Breakdown of Violation	2012	2011	2010	2009
Due Diligence/handling of Client Accounts/Suitability	26	20	15	12
Inappropriate personal financial dealings	10	9	10	5
Misappropriation	8	5	2	2
Misrepresentation	9	5	9	3
Discretionary trading	6	5	4	0
Forgery	6	2	4	1
Unauthorized trading	6	7	5	0
Manipulation	4	9	2	0
Outside business activities	4	2	1	0
Supervision	4	5	2	4
Gatekeeper	3	5	6	4
Fail to cooperate	2	7	7	4
Trading conflict of interest	2	0	4	0
Off book transactions	1	3	6	2
Trading order violation	1	2	0	0
Trading without appropriate registration	1	2	3	1
Fraud	0	0	1	0
Undisclosed conflict of interest	0	0	2	2
Firm – Breakdown by Violation	2012	2011	2010	2010
Supervision	10	9	2	6
Expedited Hearing – Firm Winding Down	3	0	0	0
Failure to handle client accounts	2	2	1	0
Failure to meet best price obligations	2	3	2	0
Inadequate books and records	1	4	0	0
Internal controls	2	3	1	3
Capital deficiency	0	4	0	7

Sanctions Imposed by IIROC Hearing Panels

Firms	2012	2011	2010	2009
Decisions	16	18	6	15
Fines	\$1,361,667	\$1,525,000	\$1,297,500	\$32,530,000
Costs	\$259,333	\$162,000	\$85,000	\$369,853
Disgorgement	–	\$1,768	–	–
Total	\$1,621,000	\$1,688,768	\$1,382,500	\$32,899,853
Permanent suspension	4	1	1	4
Termination	–	2	–	1
Warning letter	1	1	2	6

Individuals	2012	2011	2010	2009
Decisions	56	58	45	28
Fines	\$9,770,355	\$6,413,129	\$2,704,853	\$1,535,000
Costs	\$623,167	\$815,050	\$536,500	\$422,178
Disgorgement	\$142,189	\$627,039	–	29,076
Total	\$10,535,711	\$7,855,218	\$3,241,353	\$1,986,254
Suspension	34	19	17	8
Permanent bar	9	11	17	7
Warning letter	18	5	17	8
Conditions	20	25	15	16

Note: This table represents the fines imposed by IIROC Hearing Panels but does not represent the total amount of fines collected from respondents.

While IIROC collects 100% of fines levied against investment dealers and individual registrants that remain in the investment industry following the conclusion of their disciplinary matter, we collect only a small portion of fines levied against respondents who have left the investment industry. With the exception of the Province of Alberta, where legislation exists that assists IIROC in the collection of its fines, we have no ability to enforce the fines imposed on former registrants. We will, however, continue to seek the support of the CSA to obtain similar legislative powers in the other provinces and territories.

Appendix – IIROC Disciplinary Actions

January 1 to December 31, 2012

Individuals

Discretionary Trading

- Michael Reid Ast
- Gary Beck

Forgery

- Karen Elizabeth Abbott
- Paul James Vorstadt

Gatekeeper

- Maoqing Teng
- Jean-Pierre Menard
- Serge Leclair

Due Diligence/Handling of Client Accounts/Suitability

- Kenneth Gareau
- Pierre Lalonde
- Jamie Cohen
- Idan Cohen
- Ilya Soliterman
- Terry Norman Dyck
- Shaun Gerard McErlean
- Stephane Rail
- Mark Steven Rotstein
- Jessica Elisabeth Zackheim
- Herbert Abramson
- Randall Abramson
- Syvert Mytting
- Sammy Shieh Lung Pan
- James Gwilym Jones
- John Skelton
- Douglas Michael Warkentin
- Francois Tremblay
- Harry Richard Newman
- Samuel Ryan Scoten
- Ronald Lann
- Benoit Beaulne
- John Hanna
- Bernard Patrick King

Inappropriate Personal Financial Dealings

- James Wenman
- Sandy Joseph Bortolin
- Trevor Ian Gunderson
- Stephen Moran

Manipulation

- William Geddes
- David Charles Parkinson
- James William Watson

Misappropriation

- Henry Cole
- Thi Sen Chher
- Darlene Ryan
- Gurpreet Pawar
- Alan Cusson

Misrepresentation

- Nicole Arvanitakis

Inappropriate Outside Business Activities

- Alfonso Fiumidini
- Konstantine Dariotis
- Carol Voyer

Failure to Supervise

- Paul Johnson
- David Wilson Murdoch
- Lesley Walters-Sagher
- Richard Allan MacDonald

Trading Conflict of Interest

- Vinh-Phat Nguyen Qui

Trading Order Violation

- Julian Pope

Trading Without Appropriate Registration

- Daniel Biron

Unauthorized Trading

- Alain Laroche
- Daniel Lindsay Cuthbertson

Investment Dealers

Expedited Hearing – Firm Winding Down

- First Leaside Securities
- Peregrine Financial Group Canada Inc.
- Jory Capital Inc.

Failure to Handle Client Accounts

- Trapeze Capital Corp.

Failure to Meet Best Price Obligations

- Pope & Company
- Wellington West Capital Inc.

Inadequate Internal Controls

- BMO Nesbitt Burns Inc.
- Northern Securities Inc.

Failure to Supervise

- Barrett Capital Management Inc.
- Portfolio Strategies Securities
- CIBC World Markets
- RBC Dominion Securities Inc.
- Banque Laurentienne (VMBL)
- Wellington West Capital Inc. (Nov)
- Raymond James Ltd.
- OptionsXpress

Glossary

ATS (Alternative Trading System) – ATSs are approved, non-exchange trading systems specifically designed to match buyers and sellers by allowing parties to find counterparties for transactions instead of trading shares on an exchange. ATSs were first introduced in Canada approximately seven years ago

BCC (Business Conduct and Compliance) – The role of IIROC’s Business Conduct and Compliance Department is to monitor IIROC-regulated firms to ensure they implement policies, procedures and appropriate controls in compliance with all non-financial regulatory requirements, including those of IIROC, provincial securities acts and federal legislation such as the Proceeds of Crime (Money Laundering) and Terrorist Financing Act 2001.

CIPF (Canadian Investor Protection Fund) – CIPF was established by the investment industry to protect investors and all IIROC-regulated firms are required to be members of CIPF. CIPF’s mandate is to ensure, within defined limits, that the cash and securities belonging to eligible customers of Canadian investment dealers are returned to them in the event of the insolvency of a CIPF member.

COMSET (Complaints and Settlement Reporting System) – IIROC requires registered firms to report client complaints and disciplinary actions including internal investigations, denial of registration and settlements; and civil, criminal or regulatory action against the firm or its registered employees. This information is reported through IIROC’s computerized Complaints and Settlement Reporting System.

CSA (Canadian Securities Administrators) – The CSA is the council of ten provincial and three territorial securities regulators in Canada. The mission of the CSA is to facilitate Canada’s securities regulatory system by protecting investors from unfair fraudulent practices and by promoting fair, efficient and transparent markets through the development of harmonized securities regulations, policies and practices.

IDA (Investment Dealers Association) – IDA served as a regulator and advocacy organization for security dealers until 2006. In 2006, the IDA narrowed its focus to regulation and transferred its association role to a separate and independent association, the Investment Industry Association of Canada. The IDA and Market Regulation Services were consolidated to form IIROC in 2008.

IMET (Integrated Market Enforcement Team) – IMET is led by the RCMP with a mission to deter perpetrators of criminal capital markets fraud by ensuring that there is a genuine risk of being discovered, investigated, prosecuted and incarcerated. IMET investigates serious Criminal Code capital markets fraud offences that are of regional or national significance and threaten investor confidence or economic stability in Canada.

IMET works to ensure those who commit these offences are brought to justice in an effective and timely manner and collaborates with other law enforcement agencies and securities regulators to ensure that all complaints about market offences are addressed by the appropriate body. Currently, the IMET program runs 10 investigative teams in four major Canadian financial centers. These teams include RCMP Regular Member investigators, RCMP Civilian Member investigative

analysts, members seconded from various stakeholder agencies (including provincial securities regulators, Self-Regulating Organizations, and municipal and provincial police forces), counsel from the Public Prosecution Service of Canada, forensic accountants, and support staff.

KYC (Know Your Client) – This is a standard form in the investment industry that ensures investment advisors know detailed information about their clients' risk tolerance, investment knowledge and financial position. KYC forms protect both clients and investment advisors. Clients are protected by having their investment advisor know what investments best suit their personal situations. Investment advisors are protected by knowing what they can and cannot include in their client's portfolio.

MFDA (Mutual Fund Dealers Association) – The MFDA regulates the operations, standards of practice and business conduct of its members and their representatives. Its mandate is to enhance investor protection and strengthen public confidence in the Canadian mutual fund industry.

NCAF (New Client Application Form) – Securities firms and registered representatives are required to have new clients complete this form to ensure the firm and the representative is aware of the client's financial position and investment objectives so that the firm and the representative can assess the suitability of their advice.

OSC (Ontario Securities Commission) - This regulatory body administers and enforces securities law in the province of Ontario. The OSC's mandate is to provide protection to investors from unfair, improper and fraudulent practices, and foster fair and efficient capital markets and confidence in capital markets.

MRS (Market Regulation Services) – Market Regulation Services was created as a joint initiative of the TSX and the IDA. RS amalgamated the in-house surveillance, trade desk compliance, investigation and enforcement functions of the TSX and TSX Venture Exchange to produce a single entity to monitor and enforce trading rules on multiple marketplaces. IIROC was established in 2008 as a non-profit corporation through the consolidation of the IDA and RS.

SEC (Securities and Exchange Commission) – The SEC is the U.S. securities regulatory and enforcement agency that administers and enforces federal securities laws in order to protect investors and maintain fair, honest and efficient markets.

SRO (Self-Regulatory Organization) – SRO refers to an organization that sets standards, monitors members for compliance with those standards and takes appropriate action when those standards are not met.

UMIR (Universal Market Integrity Rules) – Market Regulation Services introduced the Universal Market Integrity Rules as a common set of equity trading rules designed to ensure fairness and maintain investor confidence. The UMIR continues to be IIROC's market integrity rules.



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