

INVESTMENT INDUSTRY REGULATORY ORGANIZATION OF CANADA

IN THE MATTER OF:

THE BY-LAWS OF THE
INVESTMENT DEALERS ASSOCIATION OF CANADA

AND

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

AND

CRAIG HODGE

NOTICE OF HEARING

TAKE NOTICE that pursuant to Part 10 of Dealer Member Rule 20 of the Investment Industry Regulatory Organization Canada (“IIROC”), and to Section 1.9 of Schedule C.1 to Transition Rule No.1, a hearing will be held before a hearing panel of IIROC (the “Hearing Panel”) on Tuesday May 7th, 2013, at the IIROC offices, 121 King Street West, Suite 2000, Toronto, Ontario, at 10:00 a.m., or as soon thereafter as the hearing can be heard.

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

The Standard Track

The Complex Track

TAKE FURTHER NOTICE that on June 1, 2008, IIROC consolidated the regulatory and enforcement functions of the Investment Dealers Association of Canada (“IDA”) and Market Regulation Services Inc. With respect to conduct of IDA’s registrants occurring before June 1, 2008, the IDA has retained IIROC to provide services necessary for the IDA to carry out its regulatory functions, pursuant to the *Administrative and Regulatory Services Agreement* between the IDA and IIROC.

THE PURPOSE OF THE HEARING is to determine whether Craig Hodge has committed the following contraventions that are alleged by Staff of IIROC, on behalf of the IDA ("Staff"):

COUNT 1: From January 2003 to November 2009, while a Registered Representative and Branch Manager at Assante Capital Management Ltd., Craig Hodge engaged in outside business activities without the prior knowledge or consent of his Member firm, thereby engaging in conduct unbecoming or detrimental to the public interest, contrary to IIROC Dealer Member Rule 29.1 (IDA By law 29.1 prior to June 1, 2008.)

COUNT 2: From December 2009 to April 2011, while a Registered Representative and Supervisor at IPC Securities Corporation, Craig Hodge engaged in outside business activities without the prior knowledge or consent of his Member firm, thereby engaging in conduct unbecoming or detrimental to the public interest, contrary to IIROC Dealer Member Rule 29.1.

COUNT 3: In 2008 Craig Hodge offered compensation to EM, thereby engaging in conduct unbecoming or detrimental to the public interest, contrary to IIROC Dealer Member Rule 29.1 (IDA By law 29.1 prior to June 1, 2008.)

PARTICULARS

TAKE FURTHER NOTICE that the following is a summary of the facts alleged and intended to be relied upon by Staff at the hearing:

Overview:

1. Between 2003 and 2006, while an RR and Branch Manager at Assante Capital Management Ltd. ("Assante"), Craig Hodge opened various accounts at three discount brokerage firms for an Assante client named EM. Craig Hodge ("Hodge") then effected trades for EM in the discount accounts. Hodge did not tell Assante about the discount accounts or the subsequent trading. Hodge continued to effect trades for EM in the discount accounts until his departure from Assante in November 2009.
2. From December 2009 to April 2011 Hodge was an RR and Supervisor at IPC Securities Corporation ("IPC"). During this time he continued to effect trades for EM in the discount accounts. EM was not an IPC client. Hodge did not tell IPC that he had opened the discount accounts earlier nor did he tell them he was trading in the discount accounts on behalf of EM.
3. At some point in 2008 Hodge offered to compensate EM when EM complained about the trading in the discount accounts.

Background:

4. From the mid 1990's to 2009 Hodge was a Registered Representative ("RR") and Branch Manager at Assante or its predecessor company. Hodge left Assante in late 2009 to join IPC Securities ("IPC") where he was registered as an RR and a Supervisor. While at IPC his main duties were as a Supervisor. Hodge has not been an Approved Person with IIROC since November 2011 when he left IPC.

Counts 1 and 2:**Hodge's client EM:**

5. EM was a Hodge client at Assante from January 2000 until November 2008. During this time EM also opened a corporate account at Assante known as M Holdings. EM was the father of Hodge's high school friend. EM is a retired small business owner and is 70 years old.
6. In the early 2000's, EM complained to Hodge about various issues involving his accounts at Assante including losses and high commissions. EM told Staff that Hodge agreed to transfer his accounts within Assante, so that commission fees would be lower. Hodge told Staff that EM instructed him to move his investments to the discount brokerage firm E-Trade Canada in order to have lower commissions/fees and the opportunity to trade options.

Hodge opened accounts at E-Trade Canada Securities Corporation, HSBC InvestDirect and Questrade Inc. without advising Assante:

7. Hodge opened up various discount accounts for EM and M Holdings at E-Trade (later Scotia iTrade Corp.) in 2003 and following. Hodge then commenced trading for EM in the discount accounts. He later opened discount accounts for EM at HSBC InvestDirect and Questrade in October 2005 and July 2006, respectively, and commenced trading for EM in those discount accounts as well. Hodge himself opened the discount accounts either on line, by facsimile or by mail.
8. Hodge opened the discount accounts at E-Trade, HSBC InvestDirect and Questrade and subsequently conducted trades in the discount accounts without advising Assante that he was doing so.

No further trading activity in the Assante accounts:

9. Although EM signed the account opening documentation for all of the discount accounts, at the time he signed the E trade documentation he thought that he was opening a different type of Assante account. He later came to realize that various individual and corporate accounts had been opened for him at the three discount brokerage firms listed above.
10. There was no further trading activity in the Assante accounts held by EM or his company from late 2003 until closure of those accounts at various times up until 2008.

Trading activity in the Discount brokerage accounts:

11. The E- Trade naaf signed by EM indicates 40% medium risk tolerance and 60% high risk tolerance, together with investment objectives of 60% short term capital gains, 20% medium term capital gains and 20% long term capital gains. The trading activity in EM's accounts at the three discount brokerage firms during this time period was generally consistent with these risk factors and investment objectives. Most of the securities traded were in the resource/mining sectors, technology or energy industries.
12. EM did not own a computer or possess an email account at that time, so Hodge effected trades on line on his behalf in the various discount accounts. The bulk of the trades took place in the E- Trade discount accounts. The E-Trade accounts' volume of trades ranged from hundreds to over a thousand trades per year.
13. The majority of the trading activity in the discount accounts took place in U.S. dollar margin accounts. While some of the individual accounts held by EM or his corporation at the discount brokerage firms were profitable, generally the various discount accounts at the three discount brokerage firms sustained overall losses during the period January 2007 to April 2011. The majority of the losses were in the EM U.S. dollar accounts, with a net loss of over \$400,000 during this time period.
14. As time went on EM became more involved with the discount accounts, particularly from 2009 onwards when EM complained to Hodge about the performance of his discount accounts. On or about May 2011, EM obtained a computer and he was the sole person effecting trades in the various discount accounts from that point on.

Hodge not options licensed:

15. Trading activity in the discount accounts opened by Hodge included options trading and short sales at E-Trade and Questrade. Hodge was not options licensed at the time. Hodge told IROC staff that Assante did not permit short selling.

Hodge continued to effect trades for EM while at IPC:

16. While at IPC from late 2009 to early 2011, Hodge continued to effect trades on EM's behalf in the discount accounts. Prior to May 2011, Hodge did not tell IPC that he had opened the discount accounts earlier, or that he was effecting trades for EM.

Use of IPC computer during business hours:

17. Staff obtained IP addresses for Hodge at IPC, together with IP address login details from Scotia iTrade, Questrade and HSBC InvestDirect. When Staff compared Hodge's work IP address with the addresses from the logins at the three discount brokerage houses, there were 831 total matches between December 31, 2009 and April 30, 2011. The majority of the matches were with Scotia iTrade.
18. The matches indicate that Hodge used IPC's computer and network to access EM's discount accounts and that this access occurred during daily business hours. On average, Hodge accessed the various discount accounts once or twice per day using IPC's computer.

Count 3:**Promise to compensate EM:**

19. At some time in 2008 EM complained to Hodge about the performance of his discount accounts and certain trading in these accounts. Hodge offered to compensate EM. Hodge suggested that EM obtain a Canadian Home Income Plan ("CHIP") mortgage and he offered to pay the interest on the CHIP mortgage should EM's accounts not generate enough capital gains to cover the interest payments.
20. Ultimately, according to Hodge, he did not make any interest payments on the CHIP mortgage, as EM paid for the interest. Hodge did not tell Assante about his promise to compensate EM.

GENERAL PROCEDURAL MATTERS

TAKE FURTHER NOTICE that the hearing and related proceedings shall be subject to IIROC's Rules of Practice and Procedure.

TAKE FURTHER NOTICE that pursuant to Rule 13.1, 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.

TAKE FURTHER NOTICE that on June 1, 2008, IIROC consolidated the regulatory and enforcement functions of the Investment Dealers Association of Canada (IDA) and Market Regulation Services Inc. Pursuant to the *Administrative and Regulatory Services Agreement* between the IDA and IIROC, effective June 1, 2008, the IDA has retained IIROC to provide services for the IDA to carry out its regulatory functions with respect to the conduct of IDA Members and registrants occurring before June 1, 2008.

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 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 IIROC Staff in the Notice of Hearing; and
- (c) order penalties and costs against the Respondent pursuant to IDA By-law 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 IDA By-law 20.33 and IDA By-law 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 the IIROC; or
- (i) any other fit remedy or penalty.

Where the Respondent is/was a Member firm:

- (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 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 upon any conditions or terms;
- (d) terms and conditions of continued Membership;
- (e) termination of the rights and privileges of Membership;
- (f) expulsion of the 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 IIROC Staff in the Notice of Hearing, the Hearing Panel may pursuant to IDA By-law 20.49 assess and order any

investigation and prosecution costs determined to be appropriate and reasonable in the circumstances.

DATED at Toronto, Ontario this _____ day of February 2013.

Elsa Renzella
Acting Vice President, Enforcement

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