

# INVESTMENT INDUSTRY REGULATORY ORGANIZATION OF CANADA

**In the matter of:**

**The Dealer Member Rules of the  
Investment Industry Regulatory Organization of Canada**

**and**

**Catherine Deborah Jones**

## NOTICE OF HEARING

**TAKE NOTICE** that pursuant to Part 10 of Dealer Member Rule 20 and Section 1.9 of Schedule C.1 to Transition Rule No.1 of the Investment Industry Regulatory Organization of Canada (“IIROC”), a set-date hearing will be held before a hearing panel of IIROC (“Hearing Panel”) on Monday, October 22, 2012 at IIROC Vancouver Office, 1055 West Georgia St, Suite 2800, Vancouver, at 10am, or as soon thereafter as the hearing can be heard.

**TAKE FURTHER NOTICE** that pursuant to Rule 6.2 of IIROC’s Dealer Member Rules of Practice and Procedure (“Rules of Practice and Procedure”), that the hearing shall be designated on the:

The Standard Track

The Complex Track

**THE PURPOSE OF THE HEARING** is to determine whether Catherine Deborah Jones (“Jones” or the “Respondent”), at all material times a registered representative at the Vancouver office of Leede Financial Markets Inc. (“Leede”), has committed the following contraventions that are alleged by the staff of IIROC (“Staff”):

1. Between March 2009 and March 2010, Jones engaged in discretionary trading in client W’s accounts without first having the accounts approved and accepted as discretionary accounts, contrary to IIROC Dealer Member Rule 1300.4 and 1300.5.
2. Between March 2009 and July 2010, Jones failed to ensure that the use of margin in client W’s account was suitable for W and in keeping with W’s investment objectives and personal circumstances, contrary to IIROC Dealer Member 1300.1(q).
3. Between January 2009 and May 2010, Jones misrepresented the nature of certain solicited order by marking them as unsolicited, contrary to Dealer Member Rule 29.1.

4. Between September and November 2009, Jones breached her firm internal policy by communicating with client W regarding her account by way of an email address not approved by the firm, contrary to IIROC Dealer Member Rule 29.1.
5. Between February and March 2012, Jones provided misleading information to Staff during Staff's investigation, contrary to IIROC Dealer Member Rule 29.1.

## **PARTICULARS**

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

### ***Overview***

1. During the material time, Jones set up and made use of margin facility in the accounts of her client W without ensuring that W understood that she was borrowing against her investment. During the same period, Jones also engaged in discretionary trading in W's accounts without the written approval of W or Leede, and falsely marked some of the discretionary trades as unsolicited trades.
2. Furthermore, during Staff's investigation into her conduct, Jones provided Staff with client contact notes she purported to have maintained contemporaneously to her interaction with W. The notes record certain in person meetings with W that did not actually take place.

### ***The Respondent***

3. Jones has been employed as a registered representative since March 2001. From August 17, 2006 to October 8, 2010, she worked at Leede's Vancouver office.
4. On June 1, 2008, Jones became a regulated person of IIROC.
5. Since September, 2012, Jones has worked at the Vancouver office of Global Securities Corporation.
6. Pursuant to a settlement agreement with Staff, Jones was disciplined by IIROC in December 2011 for having effected discretionary orders for a client without having the client's prior written authorization and without having the account designated and approved as a discretionary account contrary to IIROC Dealer Member Rule 1300.4 and 1300.5 and offered to guarantee an initial investment made by a client contrary to IIROC Dealer Member Rule 29.1. The investigation of that matter took place between January and September 2009.

***Client W***

7. The complainant W is a medical professional in her early 30s when she became Jones' client. Prior to being a client of Jones, W invested in mutual funds in her RRSP accounts and did not have any brokerage accounts.
8. W initially opened a Canadian dollar cash account and a US dollar cash account with Jones in April 2008. Between April 2008 and March 2019, she deposited approximately \$113,000 into her investment accounts. Her investment objective was to create a monthly income while preserving her capital.

***Use of Margin***

9. In or around March 2009, Jones opened margin accounts for W and transferred her holdings from her cash accounts to the margin accounts. W did not request the margin accounts and did not understand that the purpose of margin facility was to enable her to borrow against her investment. Jones failed to ensure that W understood that borrowing facility was set up for her accounts.
10. Between March 2009 and July 2010, based on Jones' recommendation, securities were purchased for W's accounts using margin facility. Throughout his period, W was not aware that she was borrowing against her investment.
11. In August 2009 and again in March 2010, Leede issued margin calls on W's accounts. In both instances, Jones convinced W to sell part of her holdings or to bring in additional fund without advising W that her accounts were under-margined.

***Discretionary Trading***

12. At no point did Jones obtain W's written authorization for discretionary trading. W's accounts were not designated as discretionary by Leede.
13. During the material time, over approximately one year, Jones entered many trades in Ws' account without confirming the details of the trades with W prior to their execution. Jones discussed with W about some of the securities prior to the trades, but failed to obtain specific instructions regarding the timing, price, or quantity of the trades. W was often advised of transactions after the fact.
14. With the exception of a few specific issuers, the trading of most securities in W's accounts were recommended by Jones. Between January 2009 and May 2010, Jones falsely marked numerous solicited orders of securities as unsolicited orders. W was unfamiliar with some of the securities prior to their purchases.
15. Specifically, between August 14, 2009 and January 24, 2010, W traveled outside of the country and rarely communicated with Jones via telephone. During this period, 30 trades took place in W's account. While Jones discussed with W some of the securities prior to

W's travel, Jones failed to obtain specific instructions for these trades prior to them being executed. Jones falsely marked 21 of these 30 orders as unsolicited orders.

### *Communications*

16. In order to supervise and monitor the business activities of its employees, Leede's Policy and Procedures prohibit Leede's employees from communicating with clients with regard to business matters through email addresses not sanctioned by the firm.
17. On or about September 18, 2009, Jones sent an email to W requesting that W communicate with her through Jones' personal email account in future correspondence. Jones stated in the email that she was "not able to update you on our corporate email due to regulations"
18. Between September 18 and November 4, 2009, Jones sent at least six emails from her personal email account to W. Jones ceased corresponding with W via her personal account on November 4, 2009, after W emailed Jones and stated that she preferred to communicate through Jones' corporate email account for ease of record keeping.

### *Loss suffered*

19. W invested approximately \$113,000 with Jones through cash deposit or securities transfer. Over approximately two-and-a half year, she suffered a net loss of approximately \$ 49,000. In or around March 30, 2012, Leede compensated W in the amount of \$49,000.

### *Staff's Investigation*

20. On or about February 16, 2012, Jones provided Staff a package of documents regarding her interaction with W.
21. On Staff's request, on March 23, 2012 Jones provided Staff with a sworn statement addressing questions relating to the package of documents she provided to IIROC.
22. The package contained, among other things, Jones' handwritten notes regarding her interactions with W. The notes were not filed in W's client file maintained by Leede. In her sworn statement, Jones maintained that the notes were made contemporaneously to her interaction with W, and were accurate accounts of the events that occurred.
23. The notes record certain events that did not actually take place. Specifically, the notes record in persons meetings on dates when W was traveling outside of the country.

## **GENERAL PROCEDURAL MATTERS**

**TAKE FURTHER NOTICE** that the hearing and related proceedings shall be subject to 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 the Staff of IIROC 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 of the Rules of Practice and Procedure:

- (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 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 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 the IIROC; or
- (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 Dealer Member (and such suspension may include a direction to the Dealer 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 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 the 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 the City of Toronto, this 9<sup>th</sup> day of October, 2012.

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WARREN FUNT  
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