

Re Woodward

IN THE MATTER OF:

The Rules of the Investment Industry Regulatory Organization of Canada

and

Adam William Woodward

2018 IIROC 06

Investment Industry Regulatory Organization of Canada
Hearing Panel (Alberta District)

Heard: January 12, 2018 in Calgary, Alberta

Decision: January 12, 2018

Reasons: February 12, 2018

Hearing Panel:

Eric Spink, QC, James Ross, Gary Godard

Appearances:

David McLellan, Senior Enforcement Counsel

No one appearing for Adam William Woodward

REASONS FOR DECISION

1. INTRODUCTION

¶ 1 This hearing was conducted pursuant to Sections 8203 and 8205 of the Consolidated Enforcement, Examination and Approval Rules (“Rules”) of the Investment Industry Regulatory Organization of Canada (“IIROC”).

¶ 2 This proceeding was commenced by a Notice of Hearing and Statement of Allegations dated November 10, 2017, which alleged the following contraventions:

Count 1: Between approximately August, 2012 and December, 2015, the Respondent failed to use due diligence to learn and remain informed of the essential facts relative to seven (7) clients contrary to Dealer Member Rule 1300.1(a);

Count 2: Between approximately August, 2012 and December, 2015, the Respondent failed to use due diligence to ensure that investment recommendations were suitable for seven (7) clients contrary to Dealer Member Rule 1300.1(q);

Count 3: Between approximately August, 2012 and December, 2015, the Respondent engaged in discretionary trading with respect to the accounts of seven (7) clients, without being authorized and approved to do so contrary to Dealer Member Rule 1300.4;

Count 4: Between approximately February, 2014 and May, 2015, the Respondent engaged in personal financial dealings with a client contrary to Dealer Member Rule 43;

Count 5: Between August, 2012 and December, 2015, the Respondent failed to use due diligence to ensure that clients qualified for claimed exemptions as defined in National Instrument 45-106 before facilitating their purchase of securities offered pursuant to prospectus exemptions, contrary to Dealer

Member Rule 1300.1(a).

¶ 3 Detailed particulars of these allegations are set out in the Statement of Allegations, which is attached as Appendix 1. The allegations are conveniently summarized by the following excerpt:

2. *IIROC received complaints from 58 individual clients, directly and indirectly, with respect to Woodward's handling of their investment accounts. Staff focused its investigation on a sample group of seven complainant clients ("Clients").*
3. *Woodward failed to know his Clients, who were vulnerable, had limited investment knowledge, and relied on him for his investment expertise.*
4. *The investment strategy employed by Woodward was generally uniform across all of the Clients' accounts.*
5. *He failed to use due diligence to ensure that his investment recommendations were suitable for the Clients when he pursued a high risk investment strategy which involved highly concentrated positions in speculative energy sector securities. Many of the investments were private placements in thinly traded or illiquid securities, in which Woodward failed to ensure the Clients qualified for claimed exemptions.*
6. *Woodward engaged in discretionary trading in the Clients' accounts without being authorized and approved to do so. He did not obtain pre-trade approval from the Clients, and the Clients would only learn of the trades after the fact.*
7. *The Clients suffered substantial, and in some cases devastating, losses in their accounts of between 21% and 94% of their portfolios.*
8. *In addition, Woodward engaged in personal financial dealings with a client, DA, when he borrowed approximately \$565,000, without the knowledge or approval of his firm.*

2. FAILURE TO RESPOND

¶ 4 An affidavit of service was entered in evidence, which attached a letter from Respondent's counsel to IIROC's counsel dated November 24, 2017. In the letter, Respondent's counsel acknowledges having accepted service of the Notice of Hearing and Statement of Allegations on behalf of the Respondent on November 10, 2017 and advises that "[w]e will not be filing a Response to the Notice of Hearing and Statement of Allegations" and "[n]either Mr. Woodward nor myself as his counsel will be in attendance at the January 12, 2018 hearing".

¶ 5 As predicted, no response was filed nor did Mr. Woodward or his counsel appear on January 12, 2018. IIROC's counsel therefore asked the panel to: proceed with the hearing on the merits; accept as proven the facts and contraventions alleged in the statement of allegations; immediately hear submissions on sanctions; and impose sanctions and costs. IIROC's counsel referred to Rules 8415 and 8423, particularly the following portions:

Rule 8415(4):

If a respondent who has been served with a notice of hearing does not serve and file a response in accordance with subsection 8415(1), the hearing panel may proceed with the hearing of the matter on its merits on the date of the initial appearance set out in the notice of hearing, without further notice to and in the absence of the respondent, and the hearing panel may accept as proven the facts and contraventions alleged in the statement of allegations and may impose sanctions and costs pursuant to section 8209 or 8210, as applicable.

Rule 8423(12):

If a respondent who has been served with a notice of hearing does not attend the hearing on the merits, the hearing panel

(i) may proceed with the hearing in the respondent's absence and may accept as proven the facts and contraventions alleged in the notice of hearing and statement of allegations, and

(ii) if it finds that the respondent committed the alleged contraventions, may hear submissions on sanctions from Enforcement Staff immediately, without a further hearing on sanctions and costs, and may impose sanctions and costs pursuant to sections 8209 or 8210, as it considers appropriate.

¶ 6 IIROC's counsel referred the panel to six previous decisions applying these Rules or the preceding version: Connacher (Re) 2011 LNIROC 28; Malley (Re) 2014 LNIROC 29; MacArthur (Re) 2017 LNIROC 29; Turcotte (Re) 2017 LNIROC 33; Biduk (Re) 2013 LNIROC 47; and Harding (Re) 2011 LNIROC 65.

¶ 7 Of these decisions, Biduk is the only example of a situation where the panel exercised its discretion to proceed to a merits hearing on the basis that the respondent "was presumed to have denied all the allegations made against him and to have pleaded 'not-guilty'" (Biduk para. 19). The other five decisions all illustrate situations where the panel decided to accept the allegations as proven. Although the facts of each case in the latter category differ to some extent, the common thread is that a respondent's failure to respond may be construed as an admission of the allegations, analogous to a plea of "guilty".

¶ 8 In our view, this case falls clearly within the latter category, and the Respondent's deliberate choice to not respond to the allegations constitutes an admission. The panel therefore accepted as proven the facts and the contraventions described in the Notice of Allegations.

¶ 9 Having found that the Respondent committed the five contraventions set out in Paragraph 2 above, the panel then asked IIROC's counsel to proceed with submissions on sanctions.

3. SUBMISSIONS ON SANCTIONS

¶ 10 IIROC's counsel suggested the following global penalty for all the contraventions:

- a permanent ban on registration in any capacity;
- a fine of \$450,000; and
- costs of \$50,000.

¶ 11 No order of disgorgement was sought. IIROC's counsel submitted that the disgorgement calculation would be complex and, moreover, that disgorgement is effectively included in the large fine. He emphasized that IIROC's monetary sanctions are not civil remedies but are preventative in nature and, in a case like this, should accurately reflect the seriousness of the misconduct regardless of whether there is any likelihood of payment.

¶ 12 An affidavit was entered in evidence showing IIROC's actual costs in this matter to be in excess of \$179,000.

¶ 13 IIROC's counsel made some corrections to some of the dates that appear in para. 102 of the Notice of Allegations, and Appendix 1 shows the corrected version.

¶ 14 IIROC's counsel reviewed the Notice of Allegations in some detail, alongside the IIROC Sanction Guidelines and the illustrative list of 21 Key Factors in Determining Sanctions ("Key Factors"). The theme of IIROC's submission was that the Respondent's conduct was egregious, violating on a grand scale the duties that define the role of a registered representative, and calling for the most severe sanctions available.

¶ 15 Using the Key Factors as an illustrative guide, IIROC's counsel pointed to a litany of aggravating factors in this case:

- the significant scope of the misconduct revealed by investigating seven of the the 58 complaints against the Respondent;

- the Respondent engaged in numerous acts and a pattern of misconduct;
- the Respondent engaged in the misconduct over an extended period (more than three years);
- the misconduct was intentional, and reckless with respect to regulatory requirements;
- the Respondent’s clients sustained substantial, sometimes devastating, losses;
- the Respondent’s misconduct harmed the reputation of the marketplace;
- the high level of vulnerability of the clients, who placed their trust and confidence in the Respondent and relied upon his skill and knowledge;
- the Respondent concealed from his firm the fact that he borrowed money from a client; and
- the Respondent directed the completion of paperwork intended to mislead regulatory authorities with respect to his clients’ qualifications for exemptions under National Instrument 45-106.

¶ 16 IIROC’s counsel acknowledged that the Respondent had no previous disciplinary history, and that the Respondent cooperated with the investigation to some extent, but submitted that those factors are completely overshadowed by the aggravating factors in this case.

¶ 17 IIROC’s counsel referred to the following decisions: Malley (Re) 2014 LNIIROC 29; Biduk (Re) 2013 LNIIROC 19, and 2013 LNIIROC 47; Harding (Re) 2011 LNIIROC 65; Phillips (Re) 2011 LNIIROC 34; Matthews (Re) 2015 LNIIROC 2; Gareau (Re) 2011 LNIIROC 2; Yaskiw (Re) 2017 LNIIROC 19; Wood (Re) 2017 LNIIROC 18; and Puri (Re) 2014 LNIIROC.

¶ 18 IIROC’s counsel submitted that the current case most closely resembles the situation in Malley. That case, which resulted in a permanent ban, also involved a sample of complainants and a pattern of misconduct involving the simultaneous contravention of the know-your-client, suitability, and discretionary trading rules. IIROC’s counsel submitted that the magnitude of the contraventions in this case is greater than it was in Malley, because this case involved more clients and greater losses, and said he is unaware of any other case with this magnitude of contraventions of the know-your-client, suitability and discretionary trading rules.

¶ 19 IIROC’s counsel characterized the Respondent’s misconduct as similar to that described in the merits decision in *Biduk (Re)* 2012 LNIIROC 47, where the respondent applied a “one-size-fits-all” investment strategy to his clients and “treated their ‘New Client Application Forms’ as a bothersome bit of paperwork”. He noted, again, that the magnitude of the contraventions in the present case is greater.

4. ANALYSIS

¶ 20 As stated on page 4 of the IIROC Sanction Guidelines (footnotes omitted):

The purpose of sanctions in a regulatory proceeding is to protect the public interest by restraining future conduct that may harm the capital markets. In order to achieve this, sanctions should be significant enough to prevent and discourage future misconduct by the respondent (specific deterrence), and to deter others from engaging in similar misconduct (general deterrence). ...

General deterrence can be achieved if a sanction strikes an appropriate balance by addressing a Regulated Person’s specific misconduct but is also in line with industry expectations. Any sanction imposed must be proportionate to the conduct at issue and should be similar to sanctions imposed on respondents for similar contraventions in similar circumstances. The sanction should be reduced or increased depending on the relevant mitigating and aggravating factors.

¶ 21 The panel finds that the Respondent’s conduct in this case was egregious. The Respondent applied a one-size-fits-all investment strategy to the seven clients described in the Statement of Allegations, even though that strategy was extremely risky and unsuitable for those clients. The Respondent treated the New Client Account Forms (“NCAFs”), and the documents claiming exemptions under National Instrument 45-106, as bothersome paperwork, thereby depriving his clients of the protections those requirements are designed to provide. The Respondent’s unauthorized discretionary trading in all seven clients’ accounts, and borrowing

\$565,000 from one client, further illustrate the Respondent's disdain for his clients and his willingness to take advantage of them.

¶ 22 The IIROC Sanction Guidelines say (at p. 5-6) that a permanent bar should be considered where:

- *the contraventions involve significant harm to the investing public, the integrity of the market or the securities industry;*
- *the misconduct had an element of criminal or quasi-criminal activity; or*
- *there is reason to believe that the respondent cannot be trusted to act in an honest and fair manner in their dealings with the public, their clients, and the securities industry as a whole.*

Any one of these criteria may be sufficient to warrant a permanent bar, and the Respondent meets all three. His contraventions caused substantial, sometimes devastating, losses to his clients, and a commensurate degree of reputational harm to the securities industry. The Respondent's misconduct included directing the completion of paperwork that concealed contraventions of National Instrument 45-106, which contraventions could be prosecuted as quasi-criminal offences under the Alberta *Securities Act*. Finally, the sheer magnitude of the Respondent's misconduct in this case is compelling evidence that he cannot be trusted to act in an honest and fair manner. In light of these circumstances, the panel concluded that a permanent bar is necessary.

¶ 23 The IIROC Sanction Guidelines go on to say that a "fine and/or disgorgement should be considered even where a permanent bar is imposed in egregious cases involving significant harm to investors or to the integrity of the securities industry as a whole". The panel decided that a fine of \$450,000 is appropriate in this case. We agree with IIROC's counsel that the fine includes disgorgement, and that calculation of disgorgement is not necessary here because IIROC's monetary sanctions are preventative in nature, not civil remedies. Sanctions are intended to provide specific and general deterrence, so a large fine is necessary to reflect both the extremity of the Respondent's misconduct and the corresponding need to deter others from similar misconduct.

¶ 24 The panel found no significant mitigating factors in this case. The Respondent's lack of disciplinary history means nothing in the face of such major misconduct. The Respondent's cooperation with the investigation was obligatory and occurred only after the fact. The Respondent did not self-report his misconduct nor did he make any attempt to compensate his victims.

5. ORDER

¶ 25 For these reasons the panel ordered that the Respondent:

- a) be permanently barred from approval by IIROC in any capacity;
- b) pay a fine of \$450,000; and
- c) pay costs of \$50,000.

Dated at Calgary, Alberta this 12th day of February, 2018.

Eric Spink

James Ross

Gary Godard

APPENDIX 1

STATEMENT OF ALLEGATIONS

Further to a Notice of Hearing dated November 10, 2017, staff of the Investment Industry Regulatory Organization of Canada make the following allegations:

PART I - CONTRAVENTIONS ALLEGED

Count 1

Between approximately August, 2012 and December, 2015, the Respondent failed to use due diligence to learn and remain informed of the essential facts relative to seven (7) clients contrary to Dealer Member Rule 1300.1(a);

Count 2

Between approximately August, 2012 and December, 2015, the Respondent failed to use due diligence to ensure that investment recommendations were suitable for seven (7) clients contrary to Dealer Member Rule 1300.1(q);

Count 3

Between approximately August, 2012 and December, 2015, the Respondent engaged in discretionary trading with respect to the accounts of seven (7) clients, without being authorized and approved to do so contrary to Dealer Member Rule 1300.4;

Count 4

Between approximately February, 2014 and May, 2015, the Respondent engaged in personal financial dealings with a client contrary to Dealer Member Rule 43;

Count 5

Between August, 2012 and December, 2015, the Respondent failed to use due diligence to ensure that clients qualified for claimed exemptions as defined in National Instrument 45-106 before facilitating their purchase of securities offered pursuant to prospectus exemptions, contrary to Dealer Member Rule 1300.1(a).

PART II - PARTICULARS

Overview

1. The Respondent, Adam William Woodward, (“Woodward”) was a Registered Representative (“RR”) with Richardson GMP Limited (“RGMP”) in Calgary, Alberta. Woodward is no longer employed with a Dealer Member firm.
2. IROC received complaints from 58 individual clients, directly and indirectly, with respect to Woodward’s handling of their investment accounts. Staff focused its investigation on a sample group of seven complainant clients (“Clients”).
3. Woodward failed to know his Clients, who were vulnerable, had limited investment knowledge, and relied on him for his investment expertise.
4. The investment strategy employed by Woodward was generally uniform across all of the Clients’ accounts.
5. He failed to use due diligence to ensure that his investment recommendations were suitable for the Clients when he pursued a high risk investment strategy which involved highly concentrated positions in speculative energy sector securities. Many of the investments were private placements in thinly traded or illiquid securities, in which Woodward failed to ensure the Clients qualified for claimed exemptions.
6. Woodward engaged in discretionary trading in the Clients’ accounts without being authorized and approved to do so. He did not obtain pre-trade approval from the Clients, and the Clients would only learn of the trades after the fact.
7. The Clients suffered substantial, and in some cases devastating, losses in their accounts of between 21% and 94% of their portfolios.
8. In addition, Woodward engaged in personal financial dealings with a client, DA, when he borrowed approximately \$565,000, without the knowledge or approval of his firm.

Registration History

9. Woodward first became an RR in 2006. He had been with RGMP since November 1, 2013 and was with its predecessor, Macquarie Private Wealth Inc. (“Macquarie”), since July, 2012. Woodward was on a leave of absence from RGMP from December, 2015 until July, 2017, when his employment was terminated.
10. At all material times, Woodward and another RR with whom he shared a broker code operated with their own clients under the team name Woodward Asset Management (“WAM”). WAM consisted of a staff of approximately six people, who performed largely administrative tasks.

Complainants

11. IIROC received complaints, directly and indirectly, from approximately 58 clients of Woodward.
12. The allegations herein relate to the handling of the accounts of the following seven Clients:
 - a. WB
 - b. LV
 - c. JG
 - d. DJ
 - e. AJ
 - f. AF/KF

Investment Strategy

13. Woodward portrayed himself to the Clients as a knowledgeable and well-connected oil and gas industry player skilled in selecting individual securities.
14. At all material times, he employed a generally uniform investment strategy for all of the Clients consisting of highly concentrated purchases of securities in a handful of small energy sector companies. These investments were extremely speculative, high risk investments. Most had little to no liquidity, and were often subscribed by the Clients through private placements.
15. This strategy was recommended and employed without regard for client age, financial circumstances, life circumstances, investment knowledge, actual investment objectives or actual risk tolerance.
16. The Clients suffered significant losses, summarized as follows:

Client	Losses	Percentage %
WB	(\$129,283)	(64.3%)
LV	(\$42,866)	(21.7%)
JG	(\$42,820)	(94.3%)
DJ	(\$92,148)	(56.3%)
AJ	(\$73,286)	(56.3%)
AF	(\$82,612)	(84.7%)
KJ	(\$155,659)	(74%)

17. The Clients’ accounts were all commission based. In addition to his commission based compensation, Woodward also received fees paid by issuers for certain private placements.

Client – WB

(i) Failure to Know Your Client

18. WB lives in Calgary, and is retired, having worked in the oil and gas industry for a number of years. She was a vulnerable client with very little investment knowledge.
19. In October, 2012, WB opened three accounts with Woodward: a TFSA, an RRSP, and an RESP. At that time, she was 65 years old, single, and semi-retired.
20. The New Client Account Forms (“NCAFs”) for all three accounts stated that she had net liquid assets of \$300,000, and net fixed assets of \$600,000 for a total net worth of \$900,000. Her stated annual income was \$150,000. Her stated investment objectives were 100% Capital Gains Short term and her risk tolerance parameters were 100% high risk. Her investment knowledge was listed as “fair”.
21. Woodward did not have WB complete a new NCAF, or any know your client (“KYC”) updates after October, 2012.
22. Woodward also did not have WB complete a new NCAF, or any KYC updates, following the RGMP purchase of Macquarie in November, 2013.
23. For the period of October, 2012 to July, 2015, the stated investment objectives of her accounts were too aggressive for WB, who had fair investment knowledge, was semi-retired and was on the verge of full retirement.
24. Woodward failed to learn and remain informed of the essential facts relative to WB as the stated investment objectives in her accounts were inconsistent with her true financial situation, investment knowledge, investment objectives and risk tolerance.

(ii) Suitability

25. WB was a vulnerable client who relied on Woodward for investment advice and recommendations.
26. Through Woodward’s own research, investment ideas and trading activity, he pursued an aggressive and speculative investment strategy in her accounts which involved a very high degree of risk.
27. Nearly all of his recommendations were speculative and highly concentrated in energy sector securities. Many of these investments were private placements in thinly traded or illiquid securities in small oil and gas sector companies.
28. Between January 31, 2014 and July 31, 2015, approximately 91% of WB’s holdings were in high risk securities. 80% of these securities were in the energy sector.
29. Between January 31, 2014 and July 31, 2015, WB experienced a loss of \$129,283, or 64.3% of her portfolio. During the same time period, the S&P TSX Composite Index increased by 5.5%
30. The holdings in her accounts were highly speculative, and in combination with the very high level of energy sector concentration, presented an extremely high level of risk. As such, these recommendations were not at all suitable for WB in light of her age, employment status, investment knowledge and experience.

Client – LV

(i) Failure to Know Your Client

31. LV lives in Calgary, and was a client of Woodward’s at Macquarie and moved with him to RGMP.
32. In August, 2012, she opened four accounts with Woodward: two cash accounts, an RRSP and a LIRA. At that time, she was a 46 year old widow and had not been employed for a number of years. She and her children relied on the income generated from her investments for daily living expenses. She was a vulnerable client with very little investment knowledge.
33. The NCAFs for all four accounts stated that she had net liquid assets of \$400,000 and net fixed assets of \$1,500,000, for a total net worth of \$1,900,000. Her stated annual income was \$75,000. Her stated investment objectives were 100% Capital Gains Short term and her risk tolerance parameters were 100% high risk. Her investment knowledge was listed as “fair”.
34. In an interview with Staff in March, 2016, LV advised that her stated net worth in August, 2012 was incorrect and should actually have been approximately \$600,000.

35. Woodward did not have LV complete a new NCAF, or any KYC updates after August, 2012.
36. Woodward also did not have LV complete a new NCAF, or any KYC updates, following the RGMP purchase of Macquarie in November, 2013.
37. For the period of August, 2012 to December, 2015, the stated investment objectives of her accounts were too aggressive for LV, an unemployed widow with fair investment knowledge, dependents, and relied on her investments for income.
38. Woodward failed to learn and remain informed of the essential facts relative to LV as the stated investment objectives in her accounts were inconsistent with her true financial situation, investment knowledge, investment objectives and risk tolerance.

(ii) Suitability

39. LV was a vulnerable client who relied on Woodward for investment advice and recommendations.
40. Through Woodward's own research, investment ideas and trading activity, he pursued an aggressive and speculative investment strategy in her accounts which involved a high degree of risk.
41. Nearly all of his recommendations were speculative and highly concentrated in energy sector securities. Many of these investments were private placements in thinly traded or illiquid securities in small oil and gas sector companies.
42. Between January 31, 2014 and January 31, 2016, approximately 99% of LV's holdings were in high risk securities. 96% of these securities were in the energy sector.
43. Between January 31, 2014 and January 31, 2016, LV experienced a loss of \$42,866, or 21.7% of her portfolio. During the same time period, the S&P TSX Composite Index decreased by 6.5%.
44. The holdings in her accounts were highly speculative, and as virtually all of the securities were concentrated in the energy sector, presented an extremely high level of risk. As such, these recommendations were not at all suitable for LV in light of her age, employment status, investment knowledge and experience.

Client – JG

(i) Failure to Know Your Client

45. JG lives in British Columbia, and was a client of Woodward at Macquarie and RGMP.
46. In August, 2012, JG opened a LIF account with Woodward. At that time, he was 65 years old, and was working as a construction worker. His wife worked as a laundry worker at a nursing home. He wanted to save enough money to pay off his mortgage and retire between age 66 and 67. He was a vulnerable client with very little investment knowledge.
47. The NCAF for his account stated that he had net liquid assets of \$85,000 and net fixed assets of \$300,000. His stated annual income was \$75,000. His stated investment objectives were 100% Capital Gains Short term and his risk tolerance parameters were 100% high risk. His investment knowledge was listed as "fair".
48. Woodward did not have JG complete a new NCAF, or any KYC updates after August, 2012.
49. Woodward also did not have JG complete a new NCAF, or any KYC updates, following the RGMP purchase of Macquarie in November, 2013.
50. For the period of August, 2012 to October, 2015, the stated investment objectives of his accounts were too aggressive for JG, who had fair investment knowledge, limited assets and was nearing retirement.
51. Woodward failed to learn and remain informed of the essential facts relative to JG as the stated investment objectives in his account was inconsistent with his true financial situation, investment knowledge, investment objectives and risk tolerance.

(ii) Suitability

52. JG was a vulnerable client who relied on Woodward for investment advice and recommendations.
53. Through Woodward's own research, investment ideas and trading activity, he pursued an aggressive and speculative investment strategy in his accounts which involved a high degree of risk.
54. Nearly all of his recommendations were speculative and highly concentrated in energy sector securities. Many of these investments were private placements in thinly traded or illiquid securities in small oil and gas sector companies.
55. Between January 31, 2014 and October 31, 2015, approximately 96% of JG's holdings were in high risk securities. 92% of these securities were in the energy sector.
56. Between January 31, 2014 and October 31, 2015, JG experienced a loss of \$42,820, or 94.3% of his portfolio. During the same time period, the S&P TSX Composite Index decreased by 1.4%.
57. The holdings in his account were highly speculative, and as virtually all of the securities were concentrated in the energy sector, presented an extremely high level of risk. As such, these recommendations were not at all suitable for JG in light of his age, financial situation, investment knowledge and experience.

Client – DJ

(i) Failure to Know Your Client

58. DJ lives in Calgary, and was a client of Woodward's at Macquarie and moved with him to RGMP.
59. In August, 2012, DJ opened two accounts with Woodward: a cash account and an RRSP. At that time, she was 54 years, single, and had been working as a waitress/restaurant manager for many years. She was a vulnerable client with very little financial knowledge.
60. The NCAF for her accounts stated that she had net liquid assets of \$300,000 and net fixed assets of \$500,000 for a total net worth of \$800,000. Her stated annual income was \$75,000.
61. Her stated investment objectives were 100% Capital Gains Short term and her risk tolerance parameters were 100% high risk. Her investment knowledge was listed as "fair".
62. In September, 2015, DJ completed an NCAF update which changed her investment objectives to 100% Capital Gains long term. Her risk tolerance parameters remained at 100% high risk, and her total net worth remained at \$800,000. Her investment knowledge was changed to "good".
63. For the period of August, 2012 to December, 2015 the stated investment objectives of her accounts were too aggressive for DJ, who had fair investment knowledge, limited annual income and was planning for retirement.
64. Woodward failed to learn and remain informed of the essential facts relative to DJ as the stated investment objectives in her accounts were inconsistent with her true financial situation, investment knowledge, investment objectives and risk tolerance.

(ii) Suitability

65. DJ was a vulnerable client who relied on Woodward for investment advice and recommendations.
66. Through Woodward's own research, investment ideas and trading activity, he pursued an aggressive and speculative investment strategy in her accounts which involved a high degree of risk.
67. Nearly all of his recommendations were speculative and highly concentrated in energy sector securities. Many of these investments were private placements in thinly traded or illiquid securities in small oil and gas sector companies.
68. Although she held two accounts, all of the trading activity occurred in the RRSP. Between January 31, 2014 and March 31, 2016, approximately 96% of DJ's holdings were in high risk securities. 95% of these securities were in the energy sector.
69. Between January 31, 2014 and March 31, 2016, DJ experienced a loss of \$92,148, or 56.3% of her

portfolio. During the same time period, the S&P TSX Composite Index decreased by 2.6%.

70. The holdings in her account were highly speculative, and as virtually all of the securities were concentrated in the energy sector, presented an extremely high level of risk. As such, these recommendations were not at all suitable for DJ in light of her age, financial situation, investment knowledge and experience.

Client – AJ

(i) Failure to Know Your Client

71. AJ lives in Airdrie, Alberta, and became a client of Woodward's at RGMP in 2014.
72. In October, 2014, AJ opened three accounts with Woodward: a cash account, a TFSA and an RRSP. At that time, she was 54 years, and worked as a sales coordinator. She had very little investment knowledge.
73. The NCAF for her accounts stated that she had liquid assets of \$125,000 and fixed assets of \$140,000 for a total net worth of \$265,000. Her stated annual income was \$30,000.
74. Her stated investment objectives were 90% Capital Gains and 10% income, and her risk tolerance parameters were 30% medium risk and 70% high risk. Her investment knowledge was listed as "minimal/none".
75. Woodward did not have AJ complete a new NCAF, or any KYC updates after October, 2014.
76. For the period of October, 2014 to December, 2015, the stated investment objectives of her accounts were too aggressive for AJ, who had minimal investment knowledge, with limited annual income and investible assets.
77. Woodward failed to learn and remain informed of the essential facts relative to AJ as the stated investment objectives in her accounts were inconsistent with her true financial situation, investment knowledge, investment objectives and risk tolerance.

(ii) Suitability

78. AJ was a vulnerable client who relied on Woodward for investment advice and recommendations.
79. Through Woodward's own research, investment ideas and trading activity, he pursued an aggressive and speculative investment strategy in her accounts which involved a high degree of risk.
80. Nearly all of his recommendations were speculative and highly concentrated in energy sector securities. Many of these investments were private placements in thinly traded or illiquid securities in small oil and gas sector companies.
81. Between November 30, 2014 and January 31, 2016, approximately 76% of AJ's holdings were in high risk securities. 75% of these securities were in the energy sector.
82. Between November 30, 2014 and January 31, 2016, AJ experienced a loss of \$2,286, or 1.7% of her portfolio. During the same time period, the S&P TSX Composite Index decreased by 2.6%. However, Woodward also recommended that she purchase \$71,000 in debentures in an oil and gas company which subsequently closed its business in August, 2016. As a result, her total overall loss was approximately 56.3%.
83. The holdings in her account were highly speculative, and as virtually all of the securities were concentrated in the energy sector, presented an extremely high level of risk. As such, these recommendations were not at all suitable for AJ in light of her age, financial situation, investment knowledge and experience.

(i) Failure to Know Your Client

Client – AF/KF

84. AF and KF are a married couple with a young family who live in Calgary. AF is an internal auditor and KF works as a manager with an industrial company. They have limited investment knowledge.
85. In August, 2012, AF opened three accounts with Woodward: a cash account, a TFSA and an RRSP. At

that time, she was 30 years old.

86. The NCAFs for AF's accounts stated that she had net liquid assets of \$120,000, net fixed assets of \$100,000 for a total net worth of \$220,000. Her stated annual income was \$60,000. Her investment knowledge is listed as "fair".
87. The NCAFs for all of her accounts had investment objectives of 100% Capital Gains short term, and her risk tolerance parameters were 100% high risk.
88. Also in August, 2012, KF opened four accounts with Woodward: a cash account, a TFSA, an RRSP and a LRSP/LIRA. At that time, he was 36 years old.
89. The NCAFs for KF's accounts stated that he had net liquid assets of \$160,000, net fixed assets of \$100,000 for a total net worth of \$260,000. His stated annual income was \$120,000. His investment knowledge is listed as "minimal".
90. The NCAFs for all of his accounts had investment objectives of 100% Capital Gains short term, and her risk tolerance parameters were 100% high risk.
91. Woodward did not have AF or KF complete a new NCAF, or any know your client ("KYC") updates after August, 2012.
92. Woodward also did not have AF or KF complete a new NCAF, or any KYC updates, following the RGMP purchase of Macquarie in November, 2013.
93. For the period of August, 2012 to December, 2015, the stated investment objectives of their accounts were too aggressive for both AF and KF, who had fair and minimal investment knowledge respectively, with limited investible assets.
94. Woodward failed to learn and remain informed of the essential facts relative to AF and KF as the stated investment objectives in their accounts were inconsistent with their true financial situation, investment knowledge, investment objectives and risk tolerance.

(ii) Suitability

95. AF and KF relied on Woodward for investment advice and recommendations.
96. Through Woodward's own research, investment ideas and trading activity, he pursued an aggressive and speculative investment strategy in their accounts which involved a high degree of risk.
97. Nearly all of his recommendations were speculative and highly concentrated in energy sector securities. Many of these investments were private placements in thinly traded or illiquid securities in small oil and gas sector companies.
98. Between January 31, 2014 and December 31, 2015, approximately 84% of AF's holdings were in high risk securities, with 76% of these securities in the energy sector. 99% of KF's holdings were in high risk securities, with 98% of these securities in the energy sector.
99. Between January 31, 2014 and December 31, 2015, AF experienced a loss of \$82,612 or 84.7% of her portfolio, while KJ experienced a loss of \$155,659, or 74% of his portfolio, for a combined total loss of \$238,272 representing 77.4% of their portfolios. During the same time period, the S&P TSX Composite Index decreased by 5.1%.
100. The holdings in their accounts were highly speculative, were concentrated in the energy sector, and presented an extremely high level of risk. As such, these recommendations were not at all suitable for AF/KF in light of their financial situation, investment knowledge and experience.

Discretionary Trading

101. Woodward did not have written authorization for discretionary trading in any of the Clients' accounts, and the Clients' accounts were not designated as discretionary by RGMP.

102. Between approximately January 31, 2014 and December, 2015, Woodward conducted hundreds of trades in the Clients' accounts, broken down as follows:

Client's Name:	Time Period:	Number of Trades:
WB	January 31, 2014 to July 31, 2015	62
LV	January 31, 2014 to December 31, 2015	122
JG	January 31, 2014 to October 31, 2015	14
DJ	January 31, 2014 to December 31, 2015	55
AJ	January 31, 2014 to December 31, 2015	39
AF	January 31, 2014 to December 31, 2015	30
KF	January 31, 2014 to December 31, 2015	130

103. The majority of these trades were conducted through private placements in highly speculative and illiquid junior oil and gas sector companies.
104. However, despite the large number of transactions, Woodward did not regularly communicate with any of the Clients. He also did not keep notes of any conversations with the Clients.
105. He executed, and/or directed the execution, of trades in the Clients' accounts without confirming the particulars of all trades with the Clients prior to their execution.
106. The Clients would only learn of the trades after the fact, and were not aware that Woodward was required to obtain pre-trade approval from them.
107. In his interview with Staff on December 19, 2016, Woodward stated that he engaged in discretionary trading in all of his clients' accounts, with the exception of 6 to 10 of his highest net worth clients, with whom he did have regular and frequent contact.
108. At no point did Woodward obtain the Clients' written authorization for discretionary trading, nor were any of the Clients' accounts designated as discretionary.
109. Woodward engaged in discretionary trading with respect to the accounts of the Clients without being authorized and approved to do so contrary to Dealer Member Rule 1300.4.

Personal Financial Dealings with Client

110. Between approximately February, 2014 and May, 2015, Woodward borrowed a total of at least \$565,000 ("Loans") from client DA, through a corporation owned by DA. The Loans were evidenced by four individual promissory notes executed by Woodward.
111. \$300,000 of the Loan proceeds were intended for Woodward to build a new home, while the remaining \$265,000 was intended to be used to personally purchase securities in issuers recommended by Woodward.
112. Woodward paid back approximately \$100,000 of the Loans.
113. At all material times, Woodward did not disclose the Loans to his firm. They were made without the knowledge or approval of his firm, and constitute personal financial dealings with a client contrary to Dealer Member Rule 43.

National Instrument 45-106 Exemption Qualifications

114. The majority of the securities recommended by Woodward to the Clients were private placements which required that the Clients qualify for certain prospectus exemptions in order to participate pursuant to National Instrument 45-106.

115. Woodward directed Clients to claim either the "accredited investor" exemption, or the "family, friends and business associates" exemption, in order to participate in the private placements. The Clients did not understand the nature and effect of the claimed exemptions.
116. In facilitating these transactions, Woodward gave no consideration to the terms of the exemption qualifications and simply directed the completion of whatever paperwork was necessary to enable the sale of prospectus exempt securities to the Clients whom he knew, or ought to have known, were not qualified to purchase these securities.
117. As such, Woodward failed to use due diligence to ensure that clients qualified for claimed exemptions as defined in National Instrument 45-106 before facilitating their purchase of securities offered pursuant to prospectus exemptions, contrary to Dealer Member Rule 1300.1(a)

DATED at Calgary, Alberta, this 10th day of November, 2017

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