

Re Rutledge

IN THE MATTER OF:

**The Rules of the Investment Industry Regulatory
Organization of Canada (IIROC)**

and

Christopher Rutledge

2017 IIROC 50

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

Heard: November 2, 2017 at the City of Toronto

Oral Decision: November 2, 2017

Written Decision: November 30, 2017

Hearing Panel:

Fred Chenoweth, Chair, Selwyn Kossuth and Daniel Iggers

Appearances:

Natalija Popovic, Enforcement Counsel of the Investment Industry Regulatory Organization of Canada
Cait Sainsbury, appeared on behalf of the Respondent

REASONS FOR DECISION

Introduction

¶ 1 A Hearing Panel of the Investment Industry Regulatory Organization of Canada (“IIROC”) was convened on November 2, 2017 in accordance with Section 8428 and Section 8125 of the Consolidated Enforcement, Examination and Approval Rules of IIROC, to review a Settlement Agreement (“Settlement Agreement”) dated October 30, 2017 negotiated between the Enforcement Department of IIROC (“Staff”) and Christopher Rutledge (“Respondent”).

¶ 2 The Settlement Agreement was submitted to the Hearing Panel for its acceptance or rejection. After considering the material filed and the joint submissions of Staff and the Respondent, the Panel unanimously accepted the Settlement Agreement and issued an order accordingly. These are the Panel’s reasons for doing so.

The Allegations

¶ 3 In the Settlement Agreement, the Respondent had admitted the following contraventions of IIROC Rules:

Count 1: From November 2013 to December 2015 Rutledge failed to fully and properly supervise individuals employed at Jacob Securities Inc. (“JSI”) to ensure their compliance with IIROC Rules and the written policies and procedures of JSI, contrary to IIROC Rules 38 and 2500.

Count 2: From November 2013 to December 2015 Rutledge failed to supervise JSI and its employees to

ensure that they identified, addressed, and disclosed potential or existing conflicts of interest at the firm, contrary to IIROC Rule 42.

Settlement Agreement

¶ 4 The relevant facts were set out in the Settlement Agreement, which is attached hereto as Schedule “A”.

¶ 5 The Respondent had agreed to certain sanctions as set out in the Settlement Agreement; namely a global fine in an amount of \$25,000.00; a permanent ban from acting as Chief Compliance Officer (CCO); and costs in an amount of \$5,000.00.

Test for Acceptance of Settlement Agreement

¶ 6 The Panel considered that when accepting a Settlement Agreement, it should be satisfied that the sanctions were within an acceptable range; were fair and reasonable; and served as a deterrent to the Respondent and to the industry. The Panel should accept the Settlement Agreement where it is in the public interest to do so. Panels have stated in the past that their task is not to decide whether they would arrive at the same conclusion as that reached by the parties, in particular, where the Respondent is represented by counsel, as he was in this case.

Donnelly (Re) (2016) IIROC No. 23

Portfolio Strategic Securities Inc. (Re) (2012) IIROC No. 36

¶ 7 The Panel further considered that it should not reject a Settlement Agreement unless the agreed sanctions therein “clearly fall outside a reasonable range of appropriateness” given the conduct of the Respondent.

Milewski (Re), [1999] I.D.A.C.D. No. 17

¶ 8 The Panel also considered the comments of the Supreme Court of Canada, who in 2016 stated that a trial judge “should not depart from a joint submission on sentence, unless the proposed sentence would bring the administration of justice into disrepute or is otherwise contrary to the public interest”.

R v. Anthony-Cook, 2016 SCC 43

IIROC Sanction Guidelines

¶ 9 The Panel was referred to the IIROC Sanction Guidelines, which further assisted in determining whether the agreed sanctions in the Settlement Agreement fall within the reasonable range of appropriateness. The Guidelines set out general principles that provide a framework that should be considered in connection with the imposition of sanctions, as well as the key factors commonly taken into consideration when making a determination as to the appropriate sanctions.

Principles and Key Factors

¶ 10 The Guidelines clearly set out that inability to pay is a relevant factor that can be considered in determining an appropriate sanction. The Respondent in this case had provided evidence of his financial circumstances and these circumstances were considered by the Panel when reviewing the sanctions imposed in the Settlement Agreement.

¶ 11 The Panel also considered that the Guidelines indicate that a permanent ban should be considered where, among other things, there is a significant harm to the integrity of the securities industry. In this case, the Respondent was CCO and Supervisor during the course of the two compliance audits that preceded the suspension, by IIROC, of his firm.

¶ 12 Counsel for Staff submitted that the following key factors outlined in the Guidelines may be taken into account in determining whether the agreed sanctions were appropriate in this case:

- The number, size and character of the transactions at issue.
- Whether the Respondent engaged in numerous acts and/or a pattern of misconduct.
- Whether the Respondent engaged in the misconduct over an extended period of time.

¶ 13 The IIROC compliance reviews in this case reflected an extensive lack of evidence of supervision.

¶ 14 The failures continued over two consecutive compliance audits in 2014 and 2015 without improvement.

¶ 15 Accordingly, the charges reflect conduct over a two year period.

¶ 16 There is no evidence of intentional conduct on the part of the Respondent, nor was there any evidence of harm to clients or market participants.

¶ 17 The Panel noted that in December 2015, the Respondent's Dealer Member's registration with IIROC was suspended. Accordingly, the Respondent's firm was no longer an IIROC Dealer Member. In March of 2017, an IIROC Panel accepted a Settlement Agreement as between Staff and the firm's UDP, Mr. Sasha Jacob, pursuant to which Mr. Jacob was suspended for acting as a UDP for three years and pursuant to which he agreed to pay a fine of \$100,000. Mr. Jacob is no longer an IROC registrant.

Jacob Securities (Re), 2016 IIROC 03

Jacob (Re), 2017 IIROC 17

¶ 18 The Respondent did not fully and properly address the supervisory failures identified in the September 2014 compliance audit and repeat failures were identified in the November 2015 compliance audit following which the firm was suspended in December 2015.

¶ 19 The Panel considered that the Respondent had no prior disciplinary history.

¶ 20 The Panel was also mindful of:

- Previous to Rutledge becoming CCO, JSI had virtually no comprehensive compliance program, although it had a legacy of compliance challenges documented by IIROC;
- The compliance program at JSI was underfunded with little to no resources, other than the work of the Respondent;
- During the course of his tenure as CCO, Rutledge implemented compliance policies and procedures and prioritized what he believed to be the most important compliance needs at JSI. When the financial issues at JSI appeared to be escalating, Rutledge voluntarily brought the issue to the attention of IIROC;
- The Respondent acknowledged that he had no intention of returning to the industry.

¶ 21 The Panel was of the view that were it not for the factors set out in paragraphs 19 and 20, the fine agreed to by Staff would likely have been higher.

Previous Regulatory Decisions

¶ 22 The Panel was of the view that the agreed sanctions were consistent with sanctions previously imposed by IIROC Panels for similar types of conduct.

Wellington West Capital Inc. (Re) Walter N. Silicz, and Kevin Hooke [2000] I.D.A.C.D. No. 54

Menzel (Re), 2015 LNIIROC 6

Credifinance Securities Ltd. (Re), 2010 LNIIROC 16

D & D Securities Inc. (Re), 2016 LNIIROC 35

Conclusion

¶ 23 The Panel considered that the Respondent accepted responsibility for his conduct by entering into the Settlement Agreement. The Panel was of a mind that the sanctions outlined in the Settlement Agreement were consistent with the Guidelines and with prior similar decisions and were within a reasonable range of appropriateness. It was felt that the public interest and the interests of the industry were served by the Settlement Agreement. Accordingly, the terms of the Settlement Agreement were accepted by the Panel.

Dated at Toronto, Ontario, this 30th day of November, 2017.

Fred Chenoweth

Chair

Selwyn Kossuth

Daniel Iggers

SCHEDULE A SETTLEMENT AGREEMENT PART I – INTRODUCTION

1. The Investment Industry Regulatory Organization of Canada (“IIROC”) will issue a Notice of Application to announce that it will hold a settlement hearing to consider whether, pursuant to Section 8215 of the Consolidated Enforcement, Examination and Approval Rules of IIROC, a hearing panel (“Hearing Panel”) should accept the settlement agreement (“Settlement Agreement”) entered into between the staff of IIROC (“Staff”) and Christopher Rutledge (“Respondent”).

PART II – JOINT SETTLEMENT RECOMMENDATION

2. Staff and the Respondent jointly recommend that the Hearing Panel accept this Settlement Agreement in accordance with the terms and conditions set out below.

PART III – AGREED FACTS

3. For the purposes of this Settlement Agreement, the Respondent agrees with the facts as set out in Part III of this Settlement Agreement

A. Overview

4. As Chief Compliance Officer (“CCO”) and the Supervisor at Jacob Securities Inc. (“JSI”) Rutledge was responsible for supervising its employees and ensuring compliance with IIROC Rules.
5. A series of supervisory failures at JSI were identified in consecutive IIROC compliance reviews of the firm. In some cases the failures were ongoing since 2013.
6. Rutledge failed in his supervisory responsibilities in respect of these matters. The failures included: lack of supervision of retail and institutional account trading, of timely registrations filings, and of identification and rectification of conflicts of interest.
7. In addition, Rutledge failed to supervise JSI and its employees to ensure that he identified, addressed, and disclosed certain conflicts of interest resulting from the Chief Financial Officer’s (“CFO”) involvement with one of JSI’s corporate finance clients.
8. As a result of the supervisory failures and related compliance deficiencies at JSI due in part to the lack of resources at JSI, the firm was suspended from IIROC membership in December 2015.

B. Registration History

9. Rutledge has been a registrant of IIROC and its predecessor the IDA since 1983 and his registration history is as follows:

Firm	Dates	Registration
JSI	2012- 2015	CCO and Registered Representative (“RR”) Retail Supervisor Retail
PWM Capital	2009-2012	CCO and RR / Registered Representative Options
Hampton Securities Limited	1998-2009	RR
Nesbitt Burns	1994-1998	RR
Burns Fry	1983-1994	RR

C. IIROC Expedited Hearing re JSI

10. Following an Expedited Hearing held on December 17, 2015 an IIROC Hearing Panel concluded that JSI had failed to meet basic requirements to supervise the activities of the employees at the firm.

11. The Hearing Panel’s conclusion was based on numerous significant compliance deficiencies as identified by IIROC examinations of JSI, many of which were repeat findings from previous years’ examinations, as detailed below.

12. Pursuant to the December 17, 2015 Order of the Hearing Panel (“Order”) JSI’s membership in IIROC was suspended and it was required, among other things, to immediately cease dealing with the public.

13. In its reasons for the decision to suspend JSI’s membership the Hearing Panel recognized that JSI was unable to remedy its financial deficiencies to the point of potential insolvency and noted, in part;

“IIROC established that JSI’s numerous deficiencies and its prolonged and pervasive inability to meet basic compliance and regulatory standards puts the public at risk of imminent harm, specifically JSI’s clients whose accounts are not being adequately supervised. In the same vein, JSI continued to demonstrate an inability to appreciate or to remedy its numerous problems and it continued to be in serious financial and operating difficulty.”

D. Management Structure at JSI

14. JSI was a Dealer Member of IIROC from 2009 until December 2015. Between 2013 and 2015 JSI only had one office, located in Toronto, Ontario and it employed no more than 25 employees at any one time.

15. The management structure at JSI included an Executive Management Committee composed of Sasha Jacob (“Jacob”) who was the Ultimate Designated Person (“UDP”), CEO, and Chairman of JSI, Rutledge, and Gurterath Buttar (“Buttar”) who was the CFO at JSI from May 2013 until his resignation, effective December 16, 2015, one day prior to the suspension of JSI’s membership with IIROC.

16. Jacob as the CEO and UDP reported to the Executive Management Committee. Rutledge as CCO reported to Jacob and to the Executive Management Committee. Jacob was the sole Director of JSI.

E. Rutledge Responsible for Compliance & Supervision

17. Rutledge as CCO was responsible for, among other things, establishing and maintaining policies and procedures for monitoring and assessing compliance with IIROC Rules by the firm and by its employees. Further as Supervisor Rutledge was responsible for conducting Tier 1 supervision at JSI.

18. Rutledge failed in these duties of supervision as detailed below.

F. IIROC Compliance Examinations

19. IIROC compliance Staff (“Compliance Staff”) routinely conducts examinations of IIROC Dealer Member firms to ensure compliance with regulatory requirements.
20. The purpose of these examinations is to determine whether a Dealer Member has implemented policies, procedures and controls in compliance with regulatory requirements, including IIROC Rules and all applicable securities laws.
21. At the conclusion of an examination Compliance Staff meet with representatives of the Dealer Member (“Exit Interview”) to review the findings of the field examination and to provide the Dealer Member an opportunity to respond to any issues raised.
22. After the Exit Interview, Compliance Staff finalizes its findings in a formal report and delivers it to the UDP and other relevant officers of the firm. The report identifies any regulatory deficiencies and outlines necessary steps for the Dealer Member to take in order to ensure regulatory compliance in the future.

G. Compliance Examinations and Reports re JSI

2014

23. In March 2014 IIROC Business Conduct Compliance Staff (“BCC Staff”) commenced a business conduct compliance examination of JSI, which was completed in May 2014.
24. Rutledge was the primary JSI contact during this compliance review; however BCC Staff’s findings and concerns were conveyed to Jacob and Rutledge during the Exit Interview held in July 2014.
25. BCC Staff issued its final report (“2014 BCC Report”) in September, 2014; it was addressed to Jacob as well as to Rutledge. Rutledge delivered JSI’s response to this report to IIROC in November 2014.
26. The 2014 BCC Report identified 11 issues of concern, four of which were “Repeat Significant” items from the previous examination held in 2013, as follows:
 - Supervision of trading activity,
 - Outside Business Activities (“OBAs”) and National Registration Database (“NRD”) filings,
 - Institutional Accounts, and
 - JSI Employee Accounts held with other Dealer Members.
27. Additional “Significant” items identified in the 2014 BCC Report included those related to: Corporate Finance, books and records, managed accounts, and JSI policies and procedures.

2015

28. In June 2015 Compliance Staff conducted another review of JSI. This review was in the form of an integrated compliance examination (“ICE”) involving three IIROC compliance departments; namely BCC, Financial and Operations, and Trade Conduct Compliance (“TCC”).
29. Rutledge was the primary JSI contact during this compliance review, though Jacob was copied on all of Compliance Staff’s inquiries and requests for information. Compliance Staff’s findings and concerns were conveyed to Jacob and Rutledge at an Exit Interview held in October, 2015.
30. The ICE report (“2015 ICE Report”) was delivered to the firm in November 2015 one month prior to the termination of JSI’s registration and was addressed to Jacob and Rutledge.
31. The 2015 ICE Report identified 40 issues of concern, seven of which were “Repeat Significant” items from the 2014 examination, as follows:
 - Supervision of Trading Activity – Retail and Institutional

- OBAs
- Employee Accounts held with other Dealer Members
- Institutional Accounts
- Supervision of the Grey and Restricted Lists
- Corporate Governance, and
- Conflicts of Interest.

32. Additional “Significant” items identified in the 2015 ICE Report included: anti-money laundering procedures, prospectus distributions and expressions of interest, and corporate finance reporting and compliance.
33. In November 2015 five senior members of IIROC Compliance Staff met with Jacob and Rutledge to discuss the repeat significant deficiencies in the 2015 ICE Report.
34. Jacob and Rutledge were invited to explain how they planned to rectify the deficiencies and address the compliance issues. This meeting occurred one month before the termination of JSI’s registration. Given the timing, Rutledge was unable to commit to a plan of rectification.
35. In addition to the compliance and supervisory failures identified in the above noted compliance reviews, JSI had difficulties with its Risk Adjusted Capital (“RAC”) in 2014 and 2015.
36. In particular, as early as May 2013 JSI was designated in Early Warning Level 2 (“EWL2”) due to low RAC and remained in EWL2 continuously through to December 2015.
37. The EWL2 designation was a result of volatility in the firm’s profitability and low financial statement capital relative to its losses.
38. In May 2014 JSI’s failure to meet margin requirements for one of its corporate finance deals resulted in it becoming capital deficient.
39. JSI failed to report the 2014 capital deficiency and IIROC Financial Operations Staff only became aware of it as a result of the 2015 review. This capital deficiency was ultimately rectified.
40. However, on November 6, 2015, JSI once again became capital deficient. This capital deficiency was also ultimately rectified.
41. As noted above, in December 2015 as a result of the Order of the Hearing Panel JSI’s membership with IIROC was suspended.
42. No permanent financial solution was presented by JSI despite repeated representations extending over several months that various sources of funding were to be imminently concluded.

H. Supervisory Failures- November 2013 to December 2015

a) Insufficient Evidence of Daily & Monthly Supervision of Retail Accounts

43. According to JSI’s Policies and Procedures Manual (“P&P”) for the period reviewed during the 2014 BCC review Rutledge was responsible for daily supervision of retail client accounts.
44. However, Rutledge failed to document that he conducted daily supervisory reviews of retail accounts.
45. Rutledge was also responsible for monthly supervision of retail accounts. However, over the same period of time, while certain JSI monthly retail supervision reports were signed by Rutledge, they were not dated. Rutledge therefore failed to ensure that this supervision was adequately documented on a timely basis.
46. Compliance Staff had brought their concerns about daily and monthly supervisory failures to Jacob and Rutledge’s attention as early as 2013.

b) No Supervision of Rutledge’s Activity as RR for Retail Accounts

47. Rutledge opened a limited number of accounts under his RR code. He did so on a temporary basis and the accounts were ultimately transferred to another RR. This occurred most frequently when accounts were “orphaned” or did not belong to a particular RR. The accounts were opened under a “House Account” and temporarily stored under Rutledge’s code.
48. Rutledge did not actively trade in any of the accounts for which he was an RR and as a result, there was limited trading activity that required supervision by an alternate Tier 1 reviewer. Some of the trades resulted from a one –time deal placement of a capital market introduced client or unsolicited liquidating trades in orphaned accounts.
49. However, Rutledge as CCO failed to ensure that an alternate supervisor reviewed the trading he conducted in these accounts in his capacity as RR.

c) Insufficient Evidence of Supervision of Institutional Accounts

50. Rutledge failed to document periodic institutional account reviews throughout November 2013 to December 2015. While Rutledge logged on to the JSI systems for online review of institutional trading, he failed to document that he had in fact conducted such reviews.
51. For example, in at least one instance in February 2015 Rutledge failed to detect and supervise trading activity that occurred in an institutional client account that should not have been permitted to trade.

d) Rutledge Fails to Take Corrective Measures re Institutional Account Supervision

52. In response to concerns about institutional account supervision raised by Compliance Staff in 2013 Rutledge advised that JSI’s P&P would be changed. He advised that the new P&P would require that both the CFO and CCO perform the daily trade reviews for institutional accounts and that time stamped reports would be initiated.
53. Although JSI’s P&P were amended in this regard by March 2015 Rutledge failed to ensure that there was evidence of the reviews for the balance of 2015.

e) Insufficient Evidence of Trading Conduct Supervision / Testing

54. As part of the ICE review TCC Staff conducted the field examination and a review of JSI’s supervision and testing of trading conduct in compliance with the IIROC Universal Market Integrity Rules (“UMIR”).
55. However, Rutledge was unable to provide TCC Staff with evidence that internal supervision and testing as required under UMIR was being adequately conducted for the institutional or retail trading executed by or on behalf of JSI.
56. The failure to document appropriate and timely supervision and testing for institutional trading had also been identified in the previous TCC examination of JSI in 2012.
57. Reviews by Enforcement Staff of trading between November 2014 and August 2015 revealed that Rutledge had failed to create and retain adequate evidence of supervision of the trading in JSI’s client accounts. Examples of deficiencies in evidencing supervision include:
 - Several Monthly Trade Review (“MTR”) reports evidenced only a hand-written date but had no initials, or date and time stamps
 - In other cases, the initials “CR” appeared on certain pages of MTR reports; however there was no evidence of a date to indicate when the materials were reviewed
 - The initials “CR” appeared on MTR reports for trades in equity derivatives – a class of securities for which JSI was not registered to trade at the time, and

- The documentation of trade queries was inadequate.

f) Failure to Make Timely Reports on NRD

58. Rutledge failed to report certain OBAs of JSI employees to IIROC on NRD in a timely fashion, as detailed below.

i. Jacob

59. As at January 2014 Jacob owned approximately 40% of a company called Omifin Solutions and was responsible for “directing financing solutions for Omifin projects”.

60. However, as of December 2015 this OBA had not been reported on NRD. It is Rutledge’s evidence that he was uncertain as to the veracity of this OBA.

61. Further, Jacob was a member of the Board of Directors of two charitable organizations as early as 2011. However, as of December 2015 these OBAs had not been reported on NRD.

ii. Buttar

62. In May 2013, Buttar became the full-time CFO at JSI.

63. At this time in addition to his duties as CFO at JSI, at Jacob’s request Buttar assumed the role of interim CFO for an issuer called Plumbago Refining Corp. B.V. (“Plumbago”).

64. Though this OBA was known to Jacob as of May 2013 and known to Rutledge as of December 2013, it was not reported on NRD until August 2014.

65. In addition, from July 2008 to February 2015 Buttar owned 50% of a US brokerage firm called Mercator Associates, LLC. (“Mercator”). This ownership interest was properly disclosed on NRD.

66. In or about April 2014 the US Financial Industry Regulatory Authority (“FINRA”) identified certain regulatory issues in relation to Mercator and Buttar.

67. Though the FINRA regulatory issues were known to Rutledge as early as June 2014, they were not reported on NRD until November 2014.

iii. Rutledge Fails to Take Corrective Measures

68. In October 2014 following the 2014 BCC Report Rutledge advised IIROC Staff that he was in the process of going through JSI corporate engagement files, to determine whether there were any actual, or suggested, OBAs or business involvements or conflicts of interest that may exist that would need to be reported on NRD. However by the date of the 2015 ICE Report, this had not been completed.

g) Options Trading Absent Registration or an Options Supervisor

69. At no time did JSI have an approved Designated Options Supervisor nor was the firm or any of its registrants approved for options trading.

70. Nevertheless, throughout 2015 Darren Carrigan, a JSI registrant, traded in options in at least three separate accounts.

71. Rutledge allowed this trading to take place when it was not an approved activity and failed to supervise the firm and its employees in this regard.

h) Trading by JSI Employee While Prohibited by OSC

72. Rutledge was also responsible to IIROC for supervision to ensure compliance by JSI, and by each individual acting on the firm’s behalf, with applicable securities law requirements.

73. In March 2014, Alka Singh (“Singh”), a JSI employee, was the subject of an Ontario Securities

Commission order made pursuant to a settlement agreement (the “OSC Order”).

74. As part of the terms of the OSC Order, Singh was prohibited from trading in any securities or derivatives and from acquiring any securities for a period of three years commencing March 27, 2014.
75. Rutledge has represented to IIROC that he had no knowledge that Singh was prohibited from trading pursuant to an OSC cease trade order; and that at no time did Singh advise him that she was restricted by any such order.
76. When he came to learn of the cease trade order, Rutledge cooperated with the OSC in respect of its investigation into Singh’s conduct.
77. In May 2014, Rutledge opened a US cash account in his capacity as RR for Singh and approved the opening of this account in his capacity as CCO.
78. Notwithstanding the OSC Order, Singh was permitted to acquire and trade securities in her JSI account. As of November 2014 she held 50,000 shares of one security in the account. In January 2015 all of the shares were sold out of the account and all of the sales were marked “unsolicited”.

i) Failure to Supervise JSI Employee Accounts at Other Firms

79. As indicated in the 2014 and 2015 compliance reviews, Rutledge failed to supervise trading in JSI employee accounts held at other investment firms.
80. As set out in the P&P, JSI employees who held investment accounts at other Dealer Member firms were required to:
 - Provide JSI with attestations setting out the details of such external accounts, and
 - Provide the other firms with letters of authorization (“LOAs”) authorizing and instructing them to send copies of their monthly account statements to JSI.
81. Rutledge failed to ensure that JSI employees complied with these P&P requirements notwithstanding that both he and Jacob had given undertakings in this regard to Compliance Staff in response to the 2014 BCC report.
82. In particular, they undertook to ensure that employee attestations would be reformatted to contain specific attestation signatures below a list of the employee’s disclosed accounts held at other investment firms.
83. Further, during 2014-2015 Rutledge failed to properly supervise these outside accounts by, among other things:
 - Failing to send the LOAs to the other firms for several months after certain employees started working at JSI; and
 - Failing to obtain LOAs from several of JSI’s employees.
84. Compliance Staff had previously identified similar concerns related to employee accounts held at other investment firms following IIROC examinations in 2010 and 2013 however Rutledge ultimately failed to take adequate steps to address these concerns.

j) Failure to Comply with Anti-Money Laundering Requirements

85. The JSI P&P indicated that Rutledge, along with Buttar, was responsible for implementing anti-money laundering (“AML”) procedures required by the Canadian Proceeds of Crime (Money Laundering) and Terrorist Financing Act (“AML Legislation”).
86. However, in September and in December of 2014 Rutledge failed to ensure that client identification was properly obtained in at least two instances when accounts were opened with expired client identification

records.

87. In addition, in the case of five client accounts where no face to face client meetings had taken place, Rutledge failed to ensure that the applicable AML procedures had been complied with.
88. Further, according to the JSI P&P Rutledge was responsible for providing employee training on a two year cycle in accordance with AML Legislation.
89. However in April 2015 Rutledge advised IIROC that he had not provided AML training to all JSI employees since the last training conducted at the end of 2012.

k) Failure to Maintain Adequate Corporate Finance Records

i. Inadequate Records of Insiders

90. The JSI P&P indicated that the CCO was responsible for the monitoring of trading by corporate insiders. However, Rutledge failed to keep adequate records of insiders and to conduct the required monitoring of their trading.
91. Rutledge failed to implement a coordinated insider tracking system in concert with data systems that the carrying broker had available.
92. Examples of his failure to properly monitor insiders' trading include:
 - a. In April of 2015, Rutledge and Buttar separately provided Compliance Staff with lists of insiders of various companies, however the lists were inconsistent as they contained a different set of client names for the same time period;
 - b. Both lists were incomplete in that at least three JSI clients whose documentation identified them as corporate insiders were not found on either list; and
 - c. A corporate client of JSI which had offices on the firm's premises, and which was an insider of an issuer until October 31, 2014, was permitted to execute at least five trades of shares of the issuer from September 11 to October 20, 2014; however none of these trades were marked as insider trades.

ii. Prospectus Distribution & Expressions of Interest

93. In the case of private placement offerings, JSI and Rutledge were responsible for sending final prospectuses to all clients who had purchased securities. However, final prospectuses were generally only provided to clients who made specific requests for one. Rutledge believed that the carrying broker was providing prospectuses to all clients.
94. Rutledge failed to maintain lists of expressions of interest by clients and did not track clients who received copies of preliminary prospectuses.

I. Failure to Identify, Address, and Disclose Potential or Existing Conflicts of Interest

95. Rutledge also failed in his responsibilities as CCO to introduce adequate measures to supervise JSI and its employees to ensure it identified, addressed and disclosed any potential or existing conflicts of interest as detailed below.

i. Buttar as CFO at JSI

96. In or about September 2012 Plumbago engaged JSI to arrange financing for it through a private placement of its securities.
97. From May 2013 onward Buttar acted as interim CFO for Plumbago while he was contemporaneously CFO at JSI.

98. As part of the private placement for Plumbago certain marketing materials (the “Marketing Materials”) were created including a series of Information Memoranda (“IM”) prepared by JSI, and Subscription Agreements (the “Subscription Agreements”) prepared by Plumbago.
99. For the period from May 2013, the date that Buttar began acting as interim CFO of Plumbago, to January 2014, the last financing date for which Marketing Materials were created (the “Marketing Period”) Buttar’s role as interim CFO of Plumbago was disclosed in the Marketing Materials.
100. However, his contemporaneous role as CFO at JSI was not disclosed in any of the Marketing Materials other than one IM in December 2013. By January 2014, his name was not included in any capacity in any of the Marketing Materials.
101. As of at least March 2015 Buttar continued to act as interim CFO at Plumbago, as well as CFO at JSI, until he resigned as CFO at JSI effective December 16, 2015.
102. There is no evidence of any adverse impact on any clients or subscribers as a result of the failure to disclose JSI’s ownership interest in Plumbago.
 - ii. JSI Ownership of Plumbago
103. Throughout the Marketing Period JSI had an ownership interest of at least 34% in Plumbago. The Subscription Agreements included a general provision indicating that an “affiliate of JSI” owned approximately 40% of the common shares of Plumbago.
104. However, the Subscription Agreements did not disclose that the affiliate was a company called Jacob Securities Holdings Inc. (“JSHI”), which owned 100% of JSI. JSI’s ownership interest in Plumbago through JSHI was otherwise not disclosed in any of the other Marketing Materials.

J. Additional Factors

105. Previous to Rutledge becoming CCO, JSI had virtually no comprehensive compliance program, although it had a legacy of compliance challenges documented by IIROC.
106. The compliance program at JSI was underfunded with little to no resources, other than the work of Rutledge.
107. During the course of his tenure as CCO, Rutledge implemented compliance policies and procedures and prioritized what he believed to be the most important compliance needs at JSI. When the financial issues at JSI appeared to be escalating Rutledge voluntarily brought the issue to the attention of IIROC.
108. Rutledge acknowledges that but for the fact that he will turn 70 years of age in January 2018, has been retired since December 2015, has no intention of returning to the industry, and in light of certain financial circumstances and a dependent, evidence of which has been provided to Staff, the fine agreed to by Staff would have been higher.
109. Rutledge does not have a discipline history with IIROC.

PART IV – CONTRAVENTIONS

110. By engaging in the conduct described above, the Respondent committed the following contraventions of IIROC’s Rules:

Count 1 From November 2013 to December 2015 Rutledge failed to fully and properly supervise individuals employed at JSI to ensure their compliance with IIROC Rules and the written policies and procedures of JSI, contrary to IIROC Rules 38 and 2500.

Count 2 From November 2013 to December 2015 Rutledge failed to supervise JSI and its employees to ensure that they identified, addressed, and disclosed potential or existing conflicts of interest at the firm, contrary to IIROC Rule 42.

PART V – TERMS OF SETTLEMENT

111. The Respondent agrees to the following sanctions and costs:
 - a) A global fine in the amount of \$25,000
 - b) A permanent ban from acting as CCO
 - c) Costs in the amount of \$5,000
112. If this Settlement Agreement is accepted by the Hearing Panel, the Respondent agrees to pay the amounts referred to above within 30 days of such acceptance unless otherwise agreed between Staff and the Respondent.

PART VI – STAFF COMMITMENT

113. If the Hearing Panel accepts this Settlement Agreement, Staff will not initiate any further action against the Respondent in relation to the facts set out in Part III and the contraventions in Part IV of this Settlement Agreement, subject to the provisions below.
114. If the Hearing Panel accepts this Settlement Agreement and the Respondent fails to comply with any of the terms of the Settlement Agreement, Staff may bring proceedings under Rule 8200 against the Respondent. These proceedings may be based on, but are not limited to, the facts set out Part III of this Settlement Agreement.

PART VII – PROCEDURE FOR ACCEPTANCE OF SETTLEMENT

115. This Settlement Agreement is conditional on acceptance by the Hearing Panel.
116. This Settlement Agreement shall be presented to a Hearing Panel at a settlement hearing in accordance with the procedures described in Sections 8215 and 8428, in addition to any other procedures that may be agreed upon between the parties.
117. Staff and the Respondent agree that this Settlement Agreement will form all of the agreed facts that will be submitted at the settlement hearing, unless the parties agree that additional facts should be submitted at the settlement hearing. If the Respondent does not appear at the settlement hearing, Staff may disclose additional relevant facts, if requested by the Hearing Panel.
118. If the Hearing Panel accepts the Settlement Agreement, the Respondent agrees to waive all rights under the IIROC Rules and any applicable legislation to any further hearing, appeal and review.
119. If the Hearing Panel rejects the Settlement Agreement, Staff and the Respondent may enter into another settlement agreement or Staff may proceed to a disciplinary hearing based on the same or related allegations.
120. The terms of this Settlement Agreement are confidential unless and until this Settlement Agreement has been accepted by the Hearing Panel.
121. The Settlement Agreement will become available to the public upon its acceptance by the Hearing Panel and IIROC will post a full copy of this Settlement Agreement on the IIROC website. IIROC will also publish a summary of the facts, contraventions, and the sanctions agreed upon in this Settlement Agreement.
122. If this Settlement Agreement is accepted, the Respondent agrees that neither he nor anyone on his behalf, will make a public statement inconsistent with this Settlement Agreement.
123. The Settlement Agreement is effective and binding upon the Respondent and Staff as of the date of its acceptance by the Hearing Panel.

PART VIII – EXECUTION OF SETTLEMENT AGREEMENT

124. This Settlement Agreement may be signed in one or more counterparts which together will constitute a binding agreement.

125. A fax or electronic copy of any signature will be treated as an original signature.

DATED this “30” day of “October”, 2017.

“Witness”

Witness

“Christopher Rutledge”

Christopher Rutledge

“Sharon Lloyd”

Witness

“Natalija Popovic”

Natalija Popovic

Enforcement Counsel on behalf of
Enforcement Staff of the Investment
Industry Regulatory Organization of Canada

The Settlement Agreement is hereby accepted this “2nd” day of “November”, 2017 by the following Hearing Panel:

Per: “Frederick W. Chenoweth”

Panel Chair

Per: “Selwyn Kossuth”

Panel Member

Per: “Daniel Iggers”

Panel Member

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