Re Edward Jones

IN THE MATTER OF:

The Rules of the Investment Industry Regulatory Organization of Canada

and

Edward Jones

2016 IIROC 42

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

Heard: October 28, 2016
Decision: October 28, 2016
Written Reasons: November 7, 2016

Hearing Panel:
Martin L. Friedland, C.C., Q.C. (Chair), Leo Ciccone and Mary Savona
Appearances:
Elissa Sinha, Enforcement Counsel, IIROC
Lawrence Ritchie, Lia Bruschetta and Vanessa Cotric for the Respondent

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REASONS FOR DECISION

INTRODUCTION

¶ 1 Staff of the Investment Industry Regulatory Organization of Canada ("IIROC") and the Respondent, Edward Jones ("Edward Jones" or "the Respondent"), entered into the attached Settlement Agreement, dated October 25, 2016.

¶ 2 The Settlement Agreement was presented to the Hearing Panel for acceptance on October 28, 2016. The Respondent and Staff of IIROC ("Staff") jointly recommended that the Hearing Panel accept the Settlement Agreement. A Hearing Panel can either accept or reject a Settlement Agreement. It cannot modify it. Moreover, it cannot go outside the facts set out in the Agreement.

¶ 3 After hearing counsel for IIROC and the Respondent and considering the material filed, the Hearing Panel accepted the Settlement Agreement. These are our reasons for doing so.

SETTLEMENT AGREEMENT

¶ 4 The Respondent is a Dealer Member of IIROC. It maintains hundreds of retail branches across Canada. Each branch location typically employs a single Registered Representative ("RR"). The firm was founded in the United States in 1922, had been a Dealer Member of IIROC and its predecessor, The Investment Dealers Association of Canada, for over twenty years

¶ 5 In the Settlement Agreement (paragraph 39), attached, the Respondent admits to the following contravention of IIROC Dealer Member Rules:

> "From 2008 to March 2013, the Respondent did not meet the minimum standards for retail account

supervision in [the five cases listed below], and client accounts and activities of its Registered Representatives were not sufficiently supervised, contrary to IIROC Dealer Member Rules 38.1 and 2500."

¶ 6 Staff and the Respondent agreed to a Settlement in which the Respondent would pay a fine of $250,000 and costs to IIROC in the sum of $50,000.

¶ 7 The five cases were as follows: Dirani (*Re Waseem Dirani* 2014 IIROC 09); Sloan (*Re David Edward Sloan* 2014 IIROC 35); Opaleke (*Re Sunday Bamidele Opaleke* 2015 IIROC 10); Munro (*Re Andrew McDougall Munro*, Settlement Agreement accepted by a panel on October 14, 2016, reasons not yet available); and Austin (*Re Jeremy Nicholas Drew Austin,* hearing held on March 16, 2016, decision pending).

¶ 8 As a result of the issues raised in these five cases, IIROC Staff reviewed Edward Jones' supervision of all of the matters raised and identified instances of insufficient supervision occurring between 2008 and 2013, as described below.

¶ 9 Edward Jones proactively undertook a comprehensive review of its supervision procedures with the assistance of an external consultant. Further, as outlined in more detail below, during and following the period in question, Edward Jones proactively implemented, improved and enhanced its supervision systems, policies, procedures and practices.

THE FIVE CASES

¶ 10 The conduct of the five Registered Representatives is described in some detail in the attached Settlement Agreement and in even greater detail in the reported Panel decisions. Full details of the conduct will not be set out in these reasons for accepting the Settlement Agreement.

¶ 11 In brief, the conduct was as follows: Dirani, Sloan and Opaleke each admitted to making recommendations that were unsuitable for clients, contrary to IIROC Dealer Member Rule 1300.1(q). Opaleke also admitted that he failed to use due diligence to learn and remain informed of the essential facts relative to three clients, contrary to IIROC Dealer Member Rule 1300.1(a). Settlement Agreements were concluded with all three former Edward Jones RRs and were subsequently accepted by IIROC Hearing Panels.

¶ 12 In a Settlement Agreement with Munro, which was recently accepted by a Hearing Panel (reasons not yet available), Munro admitted to failing to use due diligence to learn the essential facts relative to certain of his clients from 2005 to 2012, contrary to IIROC Dealer Member Rule 1300.1(a), and for failing to ensure that recommendations that he made for certain of his clients were suitable for them from 2007 to 2012, contrary to IIROC Dealer Member Rule 1300.1(q).

¶ 13 Finally, in Austin, a Notice of Hearing charges Austin with failure to use due diligence to ensure that recommendations were suitable for four clients, contrary to IIROC Dealer Member Rule 1300.1(q). The hearing, which Austin did not attend, was held on March 16, 2016. No findings have yet been made and a decision is pending.

SUPERVISION BY EDWARD JONES

¶ 14 The above five cases involved allegations against the Registered Representatives, not against the Dealer Member. The present case looks at the conduct of Edward Jones in supervising the Registered Representatives.

¶ 15 Because of the method of operation of Edward Jones, it supervises retail account activity with a centralized supervisory system based at its head office in Mississauga, Ontario. A dedicated team of Field Supervision Directors ("FSDs") are responsible for daily and monthly supervision and are supported by several other compliance areas.

¶ 16 In each of five cases, Edward Jones and its FSDs relied on the RRs involved to submit and maintain accurate information as to the true nature and purpose of the activity of their clients' accounts. The Settlement Agreement states (paragraph 25): "Sloan admitted to misleading his respective clients and assigned Edward Jones supervisory personnel, and it appears that Dirani, Opaleke, Munro, and Austin also may have submitted

inaccurate [Know-Your-Client ("KYC")] information to Edward Jones. There was insufficient assessment and questioning of the reasonableness and suitability of the risk tolerances and investment objectives submitted to it."

¶ 17 As part of its ordinary review process, an FSD reviews KYC information when the account is opened or updated. In the case of the above five cases, the Settlement Agreement states (paragraph 27), "certain of the KYC information referred to was reviewed and approved without query, or without sufficient query." Paragraph 27 of the Settlement Agreement sets out five particular examples of the FSDs not sufficiently querying the information.

¶ 18 In addition, some of the trades placed for the clients in the five cases (paragraph 29) "were not queried or not sufficiently queried, by FSDs as to whether they were suitable." Edward Jones treated the queries as satisfied when the KYC information of the clients was updated and did not make further inquiries to determine whether the suitability assessment was satisfactory. Paragraph 29 sets out insufficient queries for some of the five persons with respect to whether the fee structure was consistent with the clients' time horizons and investment objective; whether the trades recommended were excessive; and whether the securities recommended were suitable.

¶ 19 Further, Edward Jones acknowledges in the Settlement Agreement (paragraph 31) that it "did not effectively carry out its responsibility to identify or question account updates and trading which appeared suspicious or potentially unsuitable for the client." It also acknowledges (paragraph 32) that it "did not sufficiently monitor the performance of its FSDs, including oversight of FSD queries and responses, to determine whether they were substantively adequate and effectively addressed the issues identified, or required further queries and, if necessary, escalation."

COMPLIANCE ENHANCEMENTS BY EDWARD JONES

¶ 20 Edward Jones reacted quickly to allegations concerning its failure to adequately supervise its RRs. Over the course of the period in question, Edward Jones has continually and proactively improved its procedures for KYC information collection and has taken steps to ensure that the risk tolerance and objectives recorded by RRs are consistent with client circumstances and are suitable.

¶ 21 Moreover, Edward Jones has improved and enhanced its procedures and tools for trade review, with the addition of several new tools and enhanced systems to better assist FSDs in identifying patterns and isolated issues.

¶ 22 Further, Edward Jones has enhanced its supervisory structure by improving escalation procedures and supervision policies, and has increased overall compliance staffing.

¶ 23 Paragraph 34 of the Settlement Agreement states: "Since 2013, Edward Jones has invested, or very shortly will invest, over $4 million to fund technological, system and process upgrades and enhancements to its Compliance and Field Supervision Departments in Canada (part of the investment covered systems utilized in both Canada and the U.S.).

¶ 24 Paragraph 35 sets out nine specific enhancements to its compliance and supervision systems. They are:

a. adding historical KYC review items in its electronic review platforms to enhance FSDs' ability to review KYC changes related to historical transactions and to enhance the ability of Edward Jones' Compliance personnel to identify patterns of potentially non-compliant account activity occurring over extended periods of time;

b. enhancing training programs for RRs and FSDs, including enhanced training to ensure that FSDs sufficiently query RRs in relation to suspicious transactions and red flags;

c. contacting clients directly to verify an RR's responses to queries as necessary;

d. adding additional programming regarding the importance of establishing and updating KYC information;

e. adding new systems to enhance daily and monthly trade reviews;

f. enhancing staffing in its Field Supervision and Compliance Departments, with the addition of two new specialized roles in its Field Supervision Department;

g. enhancing communication between its RRs and FSDs;

h. enhancing escalation procedures where issues are identified; and

i. enhancing FSD training and oversight.

STANDARD FOR REVIEWING A SETTLEMENT AGREEMENT

¶ 25 A Hearing Panel can either accept or reject a Settlement Agreement. It cannot modify it. The standard for reviewing a Settlement Agreement was well-stated in a Pacific District hearing, *Re Johnson* (2012 IIROC 19), where the panel stated:

> "The test applicable to a decision whether to accept or reject a settlement is well-known. Simply put, a panel should accept such an agreement unless it considers the penalty provided for clearly to fall outside a reasonable range of appropriateness."

¶ 26 There are many similar statements. See, for example, *Re Taggart* (2013 IIROC 24); *Re Scotia Capital* (2013 IIROC 38); *Re Jiwa and Hoffar* (2012 IIROC 9); *Re Rotstein and Zackheim* (2012 IIROC 27); *Re Portfolio Strategies Securities Inc.* (2012 IIROC 36), and *Re Ast* (2012 IIROC 38), all stemming from *Re Milewski* ([1999] I.D.A.C.D. no. 17), where the panel stated:

> "A District Council considering a settlement agreement will tend not to alter a penalty that it considers to be within a reasonable range, taking into account the settlement process and the fact that the parties have agreed. It will not reject a settlement unless it views the penalty as clearly falling outside a reasonable range of appropriateness. Put another way, the District Council will reflect the public interest benefits of the settlement process in its consideration of specific settlements."

¶ 27 A recent Panel, *Re Donnelly* (2016 IIROC 23), rightly observed in accepting a Settlement Agreement (paragraphs 7 and 8):

> "It is usually in the public interest that matters be settled where possible rather than be determined through contested hearings. The reasons for this are often that an earlier determination of a dispute is better than a later determination. Settlements are usually less expensive than contested litigation, and there is less congestion in the dispute settling system when matters are taken out of the system through settlements. Finally where both parties agree, the result is often more palatable to the parties and society than in a contested hearing where the winner takes all.
>
> For these reasons, a panel considering the acceptance of a settlement agreement will try to reach a determination of acceptance. It will recognize that settlements are often hotly debated with much compromise and give-and-take between the parties in order to reach an acceptable position agreeable to both parties. Furthermore, the panel will recognize that it is not privy to all the facts and the motivations and considerations that each of the parties have in coming to a solution of the dispute that is agreeable to them."

¶ 28 In the present case, both parties were represented by counsel and there were extensive negotiations. Both counsel told us that there had been "extended and difficult negotiations."

WHY THE PANEL APPROVED THE SETTLEMENT AGREEMENT

¶ 29 We did not view the penalty as "clearly falling outside a reasonable range of appropriateness." Indeed, we concluded that the penalty agreed upon was appropriate in the circumstances of this case. This was not a total failure by Edward Jones to supervise the RRs, but rather a case where more could and should have been done.

¶ 30 Edward Jones fully cooperated with IIROC, providing a number of detailed written responses to written

interrogatories received from Staff, and producing extensive documents.

¶ 31 Edward Jones went further than cooperation. We were impressed by the firm's desire to proactively improve its procedures. Edward Jones retained an independent compliance consultant to review its compliance and supervisory systems and assess the efficacy of changes undertaken by the firm in the relevant period. Where the consultant made recommendations, Edward Jones has taken action to address them. Over $4 million was committed by Edward Jones to fund technological, system and process upgrades to its Compliance and Field Supervision Departments in Canada. Some new compliance personnel were brought in. The end result is a better system of supervision.

¶ 32 The IIROC Sanction Guidelines state: "The primary purpose of IIROC disciplinary proceedings is to maintain high standards of conduct in the securities industry and to protect market integrity." The Guidelines go on to state:

> "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)."

The penalty of $250,000 is a significant sum and will send a clear message to supervisors and Members that they have to take supervision very seriously. The establishment and maintenance of an effective supervision system is one of the main keys to effective securities regulation.

¶ 33 A number of cases of inadequate supervision, with a wide range of imposed penalties, were cited by counsel. No case was particularly comparable to this one. As the IIROC Panel stated in *Re RBC Dominion Securities* (2014 IIROC 25, paragraph 40), also a case of inadequate supervision: "Counsel took us through some comparable cases. There is a wide range of penalties. Some are higher; some are lower...Each case depends upon its facts."

¶ 34 The Settlement Agreement also notes (at paragraph 38) that "[m]ost of the affected clients have either accepted compensation for their losses or are in the process of doing so."

¶ 35 Edward Jones, as a dealer, has no prior disciplinary history in Canada and there was no element of deceit on its part. It took steps to terminate Dirani, Sloan and Opaleke after their misconduct came to light. Austin transferred to another dealer and Munro was subject to enhanced supervision.

¶ 36 For the above reasons, we accepted the Settlement Agreement.

Dated at Toronto this 7th day of November 2016.

Martin L. Friedland

Leo Ciccone,

Mary Savona

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 Rules of IIROC, a hearing panel ("Hearing Panel") should accept the settlement agreement ("Settlement Agreement") entered into between the staff of IIROC ("Staff") and Edward Jones ("Edward Jones" and "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. Edward Jones is an IIROC Dealer Member. Edward Jones maintains hundreds of retail branches across Canada. Each branch location typically employs a single Registered Representative ("RR").

5. Edward Jones supervises retail account activity with a centralized supervisory system based at its head office in Mississauga, Ontario. A dedicated team of Field Supervision Directors ("FSDs") are responsible for daily and monthly supervision and are supported by several other compliance areas.

6. In 2014, IIROC entered into Settlement Agreements with three former Edward Jones RRs David Sloan ("Sloan"), Wasseem Dirani ("Dirani"), and Sunday Opaleke ("Opaleke"). Each of these RRs admitted to making recommendations that were unsuitable for clients, contrary to IIROC Dealer Member Rule 1300.1(q). Opaleke also admitted that he failed to use due diligence to learn and remain informed of the essential facts relative to three clients, contrary to IIROC Dealer Member Rule 1300.1(a).

7. On January 13, 2016, IIROC issued a Notice of Hearing charging Jeremy Austin ("Austin"), a former Edward Jones RR, with failure to use due diligence to ensure that recommendations were suitable for four clients, contrary to IIROC Dealer Member Rule 1300.1(q). The hearing, which Austin did not attend, was held on March 16, 2016 and a decision is pending.

8. On October 14, 2016, an IIROC Hearing Panel accepted a Settlement Agreement with Andrew Munro ("Munro"), an Edward Jones RR. Munro admitted to failing to use due diligence to learn the essential facts relative to certain of his clients from 2005 to 2012, contrary to IIROC Dealer Member Rule 1300.1(a), and for failing to ensure that recommendations that he made for certain of his clients were suitable for them from 2007 to 2012, contrary to IIROC Dealer Member Rule 1300.1(q).

9. As a result of the similar issues raised in the cases of Austin, Sloan, Dirani, Opaleke, and Munro, Staff reviewed Edward Jones' supervision of all of these matters and identified instances of insufficient supervision occurring between 2008 and 2013, as described below.

10. Edward Jones proactively undertook a comprehensive review of its supervision procedures with the assistance of an external consultant. Furthermore, as outlined in further detail below, during and following the period in question, Edward Jones proactively implemented, improved and enhanced its supervision systems, policies, procedures and practices.

B. Underlying Conduct

David Sloan

11. Sloan was an RR at Edward Jones in Amherstburg, Ontario from June 2007 until his employment was terminated in February 2013. The following facts were admitted by Sloan in the Settlement Agreement accepted by an IIROC Hearing Panel on July 22, 2014:

    a) At various times in or about 2009 to 2010, Sloan recorded 100% high risk tolerance and 100% aggressive income as the investment objective for 13 clients, all of whom were born between 1919 and 1945. Sloan admitted to Staff that, in most cases, he knew that the Know Your Client ("KYC") information was not accurate and "did not make sense" or reflect their true profiles, but that he recorded it to match the investments he intended to buy for these clients.

    b) Further, between January and December 2010, Sloan recommended to 20 clients (including the 13 referred to above) that they purchase units in a particular family of funds through a Dollar

Cost Average Program with a 5% front-end fee, even though the fee was negotiable over a range of 0-5% and a Deferred Sales Charge ("DSC") option was available.

12. The KYC information for the 13 clients (out of approximately 300 clients that Sloan serviced) was reviewed and approved by FSDs. Only one of the purchases referred to in paragraph 11(b) was queried because it was outside the client's objectives and risk tolerances. In response, Sloan advised the FSD that the client's documented KYC was no longer accurate and updated the KYC to match the portfolio. There was insufficient follow-up as to whether the client's objectives had actually changed or to assess the reasonableness and suitability of the changes.

13. The family of funds that Sloan selected for the Dollar Cost Average Program was generally not unsuitable for the clients, having regard to their KYC, however Sloan admitted that the investments were unsuitable having regard to the fee basis on which they were purchased.

Wasseem Dirani

14. Dirani was an RR at Edward Jones in Burlington, Ontario from June 2003 until March 2013 when his employment was terminated. The following facts were admitted by Dirani in the Settlement Agreement accepted by an IIROC Hearing Panel on February 10, 2014:

    a) In or about March 2006, Dirani opened a margin account for a client who was approximately 63 years old, retired, and was an unsophisticated investor. The client's employer was listed as "disability" and her annual income recorded as $25,080.

    b) In or about July 2008, the client deposited $80,000 in her account, the proceeds of a loan secured with a mortgage on her home. Her net liquid assets at that time were $150,000. Following the deposit, the client doubled her automatic monthly withdrawals from $960 to $1860.

    c) In February 2009, Dirani recommended that the client purchase a $15,000 bond financed by margin borrowing. The use of margin was not queried.

    d) In May 2009, the client began to incur DSC redemption fees when she made her monthly withdrawals. By June 2012 the net equity in her account had declined to approximately $19,000, and she had sustained an overall loss in her account of approximately $27,000, comprised of a decline in value of some securities, redemption fees, and margin interest.

    e) Between April 9, 2012 and June 4, 2012, the client wrote to Dirani via his personal email expressing concerns about her account with him. Dirani was not approved by Edward Jones to use his personal email to conduct business correspondence with clients, and Edward Jones did not have access to, nor was there any way to monitor, his personal email address. Although Dirani responded to the client's emails throughout this time, from his own personal email address, he did not disclose to Edward Jones that she had made a written complaint.

    f) Dirani admitted to Staff that he engaged in undisclosed personal business with another client without Edward Jones' knowledge or consent.

15. The July 2008 purchases were reviewed and queried because there was a discrepancy between the client's documented KYC and her holdings. In response, Dirani advised the FSD that the client's documented KYC was no longer accurate and updated the KYC to match the portfolio. There was insufficient follow-up as to whether the client's objectives had actually changed or to assess the reasonableness and suitability of the changes. Edward Jones also did not sufficiently query whether DSC funds were suitable for the client given her decision to double her monthly withdrawals.

Sunday Opaleke

16. Opaleke was an RR at Edward Jones in Winnipeg, Manitoba from 1998 until his employment was terminated on April 17, 2012. The following facts were admitted by Opaleke in the Settlement Agreement approved by an IIROC Hearing Panel on February 3, 2015:

a) In January 2009, the client deposited approximately $144,000 with Opaleke, representing the net proceeds from the sale of her home. In February 2009, Opaleke updated the KYC information for the client's account.

b) The securities recommended by Opaleke for the client were nearly all medium risk preferred shares and equity mutual funds. On average approximately 5% of the holdings was in low risk, fixed income securities. In the Settlement Agreement, Opaleke admitted that the portfolio mix was too aggressive for the client.

17. The February 2009 update to KYC information in the client's account was made in response to trade review queries by the FSD about the discrepancies between the client's KYC information and holdings. Opaleke advised the FSD that the client's documented KYC was no longer accurate and updated the KYC to match the portfolio. There was insufficient follow-up as to whether the client's KYC information had actually changed or to assess the reasonableness and suitability of the changes.

Jeremy Austin

18. Austin was an RR at Edward Jones in London, Ontario from January 2009 to April 2012 when he resigned to transfer to another Dealer Member. The following facts are among those alleged by IIROC in the Notice of Hearing issued against Austin on January 13, 2016:

a) Over a three-year period, Austin updated the KYC information for four related clients 32 times, generally increasing their recorded investment knowledge and experience and their risk tolerance. The clients were unsophisticated investors with limited investment knowledge and experience and medium risk tolerance. As a result of the updates, the clients had a recorded 100% high risk tolerance.

b) Austin recommended and purchased speculative and high-risk securities for the clients. His trading was excessive.

c) Ultimately, the four clients experienced trading losses in the amount of approximately $400,000.

19. The KYC updates for the four related clients were reviewed and approved by FSDs. In addition, many of the purchases for speculative and high-risk securities were reviewed and queried by FSDs because they were outside the clients' recorded objectives and risk tolerances, however, once Austin updated the objectives and risk tolerances, there was insufficient follow-up to assess the reasonableness and suitability of the changes.

20. The FSD responsible for supervising Austin from January 2010 to April 2012 recorded concerns about his trading of speculative and high-risk securities for his clients. Notwithstanding these concerns, the trading continued.

Andrew Munro

21. Munro has been an RR at Edward Jones in Barrie, Ontario since August 2001. The following facts were admitted by Munro in the Settlement Agreement accepted by an IIROC Hearing Panel on October 14, 2016:

a) Munro failed to know certain of his clients, born in 1936, 1920, and 1926, respectively, by updating their KYC information such that it did not reflect their true investor profiles and tolerance for high risk.

b) Munro also made unsuitable recommendations to those clients. He sold certain of their mutual fund units and incurred DSC fees to buy segregated fund contracts on new DSC schedules, then sold segregated fund contracts to purchase new mutual funds on DSC schedules, thereby incurring significant redemption fees and committing his clients to new DSC schedules.

c) In addition, many of the unsuitable transactions were reviewed by Edward Jones. Although Edward Jones cancelled the commissions payable on some of the transactions, the clients

incurred redemption fees and became subject to new DSC schedules.

22. The KYC updates submitted by Munro were reviewed and approved by FSDs, with insufficient follow-up queries to assess the reasonableness and suitability of the changes.

23. As a result of his actions, Munro has been subject to a formal enhanced oversight supervisory program at Edward Jones since October 31, 2014, proactively imposed by Edward Jones.

C. Additional Facts

24. Edward Jones facilitates the use of margin for those clients who seek it, when it can be seen to help clients meet their short-term borrowing needs. However, the use of margin to engage in leveraged trading (as opposed to short-term borrowing) is discouraged by Edward Jones.

25. In each of the above cases, Edward Jones and its FSDs relied on the RRs involved to submit and maintain accurate information as to the true nature and purpose of the activity in their clients' accounts. Sloan admitted to misleading his respective clients and assigned Edward Jones supervisory personnel, and it appears that Dirani, Opaleke, Munro, and Austin also may have submitted inaccurate KYC information to Edward Jones. There was insufficient assessment and questioning of the reasonableness and suitability of the risk tolerances and investment objectives submitted to it.

D. Supervision

(i) KYC Procedures

26. During the relevant period (2008 to March 2013), there was no regulatory requirement for a client to acknowledge their KYC information by signature. However, Edward Jones sent Verification Letters to clients summarizing the KYC information on file, identifying any changes, and advising the client to provide any corrections by way of pre-paid return mail. Since March 2013, Edward Jones has required a client signature acknowledging KYC information in accordance with Phase 1 CRM requirements introduced at that time.

27. As part of its ordinary review process, an FSD reviews KYC information when the account is opened or updated. In the specific circumstances detailed above, certain of the KYC information referred to was reviewed and approved without query, or without sufficient query. In particular, in the specific instances, Edward Jones did not sufficiently query:

    a) With respect to Austin, KYC updates that were frequent and significantly increased risk tolerance over a short period of time;

    b) With respect to Sloan, KYC information for 13 clients with risk tolerance of 100% high and investment objective of 100% aggressive income;

    c) With respect to Austin and Opaleke, KYC updates that increased client knowledge and risk shortly after account opening;

    d) With respect to Austin, Sloan, Dirani, and Opaleke, KYC updates that followed trade queries, yet there was insufficient inquiry as to why the client risk tolerance and objectives were not updated before trades were placed; and

    e) With respect to Austin, Munro, Sloan, Dirani and Opaleke, KYC information that permitted more risk than appeared suitable for the clients' personal circumstances, including age, income, investment experience and knowledge, and net worth.

28. Over the course of the period in question, Edward Jones has continually and proactively improved its procedures for KYC collection and has taken steps to ensure that the risk tolerance and objectives recorded by RRs are consistent with client circumstances and are suitable.

(ii) Suitable Recommendations

29. Some of the trades placed for the clients of Austin, Sloan, Dirani, Opaleke, and Munro were not queried, or not sufficiently queried, by FSDs as to whether they were suitable. Edward Jones treated the queries as satisfied when the KYC information of the clients was updated. In the specific instance of those cases, the supervision queries were insufficient to address the following issues:

a) With respect to Sloan, Munro, and Dirani, whether and how the fee structure was consistent with the clients' time horizons and investment objectives;

b) With respect to Munro, whether the trades recommended were excessive; and

c) With respect to Austin, Munro and Opaleke, whether the securities recommended were suitable.

30. As described in detail below, Edward Jones has improved and enhanced its procedures and tools for trade reviews, with the addition of several new tools and enhanced systems to better assist FSDs in identifying patterns and isolated issues.

(iii) Adequate Supervisory Structure

31. In the above cases, Edward Jones did not effectively carry out its responsibility to identify or question account updates and trading which appeared suspicious or potentially unsuitable for the client.

32. In these specific instances, Edward Jones acknowledges that it did not sufficiently monitor the performance of its FSDs, including oversight of FSD queries and responses, to determine whether they were substantively adequate and effectively addressed the issues identified, or required further queries and, if necessary, escalation.

33. Edward Jones has enhanced its supervisory structure by improving escalation procedures and supervision policies, and has increased overall staffing.

E. Mitigating Factors

(i) Compliance Enhancements

34. Since 2013, Edward Jones has invested, or very shortly will invest, over $4 million to fund technological, system and process upgrades and enhancements to its Compliance and Field Supervision Departments in Canada (part of the investment covered systems utilized in both Canada and the U.S.).

35. Edward Jones has made a number of enhancements to its compliance and supervision systems:

a) adding historical KYC review items in its electronic review platforms to enhance FSDs' ability to review KYC changes related to historical transactions and to enhance the ability of Edward Jones' Compliance personnel to identify patterns of potentially non-compliant account activity occurring over extended periods of time;

b) enhancing training programs for RRs and FSDs, including enhanced training to ensure that FSDs sufficiently query RRs in relation to suspicious transactions and red flags;

c) contacting clients directly to verify an RR's responses to queries as necessary;

d) adding additional programming regarding the importance of establishing and updating KYC information;

e) adding new systems to enhance daily and monthly trade reviews;

f) enhancing staffing in its Field Supervision and Compliance Departments, with the addition of two new specialized roles in its Field Supervision Department;

g) enhancing communication between its RRs and FSDs;

h) enhancing escalation procedures where issues are identified; and

i) enhancing FSD training and oversight.

(ii) Additional Factors

36. Edward Jones has cooperated fully with Staff during its investigation, in accordance with its regulatory obligations, including providing a number of detailed written responses to written interrogatories received from Staff, and producing extensive documents.

37. In 2015, counsel for Edward Jones retained an independent compliance consultant to review Edward Jones' compliance and supervisory systems and assess the efficacy of changes undertaken by the firm in the relevant period. Where it made recommendations, Edward Jones has taken action to address them.

38. Edward Jones has no prior disciplinary history and there is no element of deceit on the part of Edward Jones. Edward Jones took appropriate steps to terminate Sloan, Dirani and Opaleke after their misconduct came to light. Austin had transferred to another dealer, where he continued to engage in misconduct, before his misconduct at Edward Jones came to light. Most of the affected clients have either accepted compensation for their losses or are in the process of doing so.

PART IV – CONTRAVENTION

39. By engaging in the conduct, described above, the Respondent committed the following contravention of IIROC's Rules:

    a) From 2008 to March 2013, the Respondent did not meet the minimum standards for retail account supervision in the cases outlined above, and client accounts and activities of its registered representatives were not sufficiently supervised, contrary to IIROC Dealer Member Rules 38.1 and 2500.

PART V – TERMS OF SETTLEMENT

40. The Respondent agrees to the following sanctions and costs:

    a) Edward Jones will pay a fine of $250,000; and

    b) Edward Jones will pay costs of $50,000.

41. 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

42. 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 contravention in Part IV of this Settlement Agreement, subject to the provisions of paragraph 43 below.

43. 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 in Part III of this Settlement Agreement.

PART VII – PROCEDURE FOR ACCEPTANCE OF SETTLEMENT

44. This Settlement Agreement is conditional on acceptance by the Hearing Panel.

45. 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.

46. 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.

47. 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.

48. 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.

49. The terms of this Settlement Agreement are confidential unless and until this Settlement Agreement has been accepted by the Hearing Panel.

50. The Settlement Agreement will become available to the public upon its acceptance by the Hearing Panel and IIROC will post a full of copy of this Settlement Agreement on the IIROC website. IIROC will also publish a summary of the facts, contravention, and the sanctions agreed upon in this Settlement Agreement.

51. If this Settlement Agreement is accepted, the Respondent agrees that neither it nor anyone on its behalf, will make a public statement inconsistent with this Settlement Agreement.

52. 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

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

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

DATED this "25th" day of October, 2016.

"Witness"
Witness

"Edward Jones"
Edward Jones

"Kathryn Andrews"
Witness

"Elissa Sinha"
Elissa Sinha

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

The Settlement Agreement is hereby accepted this "28th" day of "October", 20"16" by the following Hearing Panel:

Per: "Martin Friedland"
Panel Chair

Per: "Mary Savona"
Panel Member

Per: "Leo Ciccone"
Panel Member