Unofficial English Translation

Re Stevenson

IN THE MATTER OF:

THE RULES OF THE INVESTMENT INDUSTRY REGULATORY ORGANIZATION OF CANADA

AND

THE BY-LAWS OF THE INVESTMENT DEALERS ASSOCIATION OF CANADA

AND

DONALD PHILIP STEVENSON

2008 IIROC 24

Investment Industry Regulatory Organization of Canada
Hearing Panel (Québec District Council)

Hearing: October 30, 2008
Decision: November 19, 2008
(35 pars.)

Hearing Panel:
Me Jean-Pierre Lussier, Chair
Ms Élaine C. Phénix
Me Danielle Le May

Appearances:
Me Sylvie Poirier, for IIROC
Me Julie-Martine Loranger, for Donald Philip Stevenson

DECISION ON SETTLEMENT AGREEMENT

¶ 1 On September 30, 2008, the parties signed a Settlement Agreement in accordance with Dealer Member Rule 20.35 to 20.40 inclusive, and Rule 15 of the IIROC Rules of Practice and Procedure.

¶ 2 In this agreement, Mr. Stevenson acknowledges having committed the following four violations.

> "No. 1
>
> During the period from May 2003 to August 2005, the Respondent failed to properly exercise his gatekeeper duty in his supervision of the opening, by a RR, of accounts for twenty (20) offshore corporations with the same designated beneficiary, without properly

inquiring and in approving them while the required information was incomplete, inaccurate or missing on the forms, contrary Regulation 1300.2 and Policy no. 2, thereby failing to ensure that the opening of these accounts was within the grounds of good business practices, contrary to By-law 29.1.

No. 2

During the period from 2001 to 2006, the Respondent failed to keep proper tracking and record of his branch supervisory daily and monthly reviews and of his inquiries and their follows-up, as required by Policy no. 2.

No. 3

On or around October 28, 2005, the Respondent placed himself in conflict of interest in obtaining a personal loan from one of his subordinate, thereby placing his personal interest over his supervisory duty and compromising his independence in the exercise of the responsibilities he owed in this regard, contrary to By-law 29.1.

No. 4

On or before October 28, 2005, the Respondent failed to obtain the prior approval of his employer before entering into a personal financial business with an employee under his direct supervisory authority and, until this was discovered by his compliance department in January 2006, and especially in November 2005, when he was made aware that this employee was operating an undisclosed business of loans, he never disclosed having himself became a debtor of this employee by obtaining from him a loan for an amount of $200,000, contrary to By-law 29.1.

¶ 3 In accordance with the same Settlement Agreement, Mr. Stevenson agrees to the following penalties:

"a) A global fine in the amount of fifty thousand dollars ($50,000), with respect to Contraventions no. 1 to no. 4, payable to IIROC on the effective date of the Settlement Agreement unless otherwise agreed by the parties;

b) Suspension from approval as Sales Manager, Officer and Director, including revocation of Senior Vice-President designation, for a period of 12 months commencing on the effective date of the Settlement Agreement;

c) Prohibition on approval by IIROC in the position of Branch Manager, Co-Branch Manager of Officer, or to act in any other management, compliance or supervisory function, for a period of twelve (12) months commencing on the effective date of the Settlement Agreement;

d) Successful completion of the Partners, Directors and Senior Officers Qualifying Examination, administered by the Canadian Securities Institute, prior to any approval or re-approval in any officer position or compliance or supervisory function;

e) Successful completion of the Branch Managers Course, administered by the Canadian Securities Institute, prior to any approval or re-approval in the capacity of Branch Manager or Co-Branch Manager;

f) Successful completion of the Conduct and Practice Handbook Examination, administered by the Canadian Securities Institute, within six (6) months from the effective date of the Settlement Agreement as a condition upon his existing approval as Registered Representative with Options;

g) Requirement of on-site close supervision, in the manner prescribed by IIROC as a condition upon his existing approval as Registered Representative with Options, for a

period of twelve (12) months commencing on the effective date of the Settlement Agreement.

h) Requirement that Close Supervision Reports (Appendix A), signed by the Branch Manager and countersigned by the Chief Compliance Officer, be filed monthly with the Registration Department of IIROC to confirm the close supervision of the Respondent."

¶ 4 On October 30, 2008 the parties appeared before our Hearing Panel and requested our approval of the above penalties.

¶ 5 Dealer Member Rule 20.36 states that the jurisdiction of the Hearing Panel in respect of a Settlement Agreement is limited to accepting or rejecting the Agreement. The Hearing Panel, after considering the violations, their subjective and objective gravity, as well as the applicable criteria for determining penalties, may not substitute its own discretion and choose the penalty that it would itself have selected. Its role is limited to deciding whether the penalty or penalties agreed between the parties are within the limits of what is just and reasonable, given the applicable circumstances and criteria.

¶ 6 The material facts in this matter, as well as the details relative to Mr. Stevenson and his career in the securities industry appear in the Settlement Agreement. A copy of the Settlement Agreement is attached to this Decision and is deemed to be an integral part thereof. There is therefore no need to reproduce it again below.

¶ 7 Briefly, let us review for the reader's benefit the four violations acknowledged by Mr. Stevenson, which concern: first, the failure to adequately supervise the opening of about twenty accounts for foreign corporations controlled by a single beneficiary. The new client application forms contained omissions, or false or contradictory information, which Mr. Stevenson did not investigate or verify with the representative who opened the said accounts.

¶ 8 Next, Mr. Stevenson acknowledges having placed himself in a conflict of interest by obtaining a personal loan from a representative under his supervision. He did not disclose the existence of this loan until it was discovered by the chief compliance officer of the firm where he was employed.

¶ 9 Our Hearing Panel began by considering the Disciplinary Sanction Guidelines, which offer certain directions in determining appropriate penalties. While these guidelines are not imperative, they may serve as a guide, if only to assess the objective gravity of the violations. The fact remains that this objective gravity must itself be evaluated in light of the particular circumstances of the matter, as well as those specific to the person who committed the violations.

¶ 10 The Guidelines suggest that an officer guilty of a failure to supervise be: assessed a fine of at least $25,000; required to rewrite the Partners, Directors and Senior Officers Qualifying Examination; suspended, even permanently barred from approval in a supervisory capacity; and, in egregious cases, be permanently barred from approval in any capacity in the securities industry.

¶ 11 And, with regard to record-keeping, the Guidelines mention a fine of at least $10,000; the requirement to rewrite the Partners, Directors and Senior Officers Qualifying Examination; suspension from acting in a supervisory capacity; and, in egregious cases, a permanent bar from employment in the industry in any capacity.

¶ 12 In Mr. Stevenson's case, the fact that no harm was done and that the Respondent worked in the industry for some forty years while maintaining a spotless disciplinary record, allows us to set aside forthwith the idea of any permanent bar. Since the penalty agreed between the parties includes a suspension and temporary bar for a period of twelve (12) months, along with the requirement that he repeat certain courses and rewrite the related exams, it may immediately be agreed that the proposed penalty is entirely within the spectrum of penalties recommended in the Guidelines.

¶ 13 Now, as regards the conflict of interest, the Guidelines discuss undisclosed personal business with a client. However they say nothing about conflicts of interest that may exist between a representative and an officer. It should however be kept in mind that for a conflict of interest with a client, the Guidelines invoke a minimum fine of $10,000, successful completion of an appropriate industry program, close supervision for a

period of 12 to 24 months, suspension of approval in cases involving multiple client losses or conduct over a period of time, as well as a permanent bar in egregious cases.

¶ 14 In the opinion of the Hearing Panel, even if conflicts of interest between an officer and a representative are not the object of a penalty guideline per se, they are nonetheless violations of a nature to undermine the credibility of the industry, as well as that of the firm where they occur. Of course, the clients of the representative in question are not directly concerned by the conflict of interest. But it is very much to be feared that an officer who is the debtor of a representative under his supervision could be overly indulgent and ignore his supervision duties where his creditor is concerned. In the short, medium and long term, there is a risk to the clients of this representative.

¶ 15 Our Hearing Panel has had no indication that, in this instance, clients may have suffered any inconvenience due to the conflict of interest between Mr. Stevenson and his representative MB, but the risk to the clients, born of the existence of the conflict of interest, is real. Such conflict must therefore be addressed just as if the conflict was between a client and his representative. And the penalties proposed by the Guidelines for a conflict of interest between client and representative remain relevant in a conflict of interest between representative and officer.

¶ 16 It has been argued that Mr. Stevenson was not truly aware of the existence of a conflict of interest. The representative concerned was a personal friend who loaned him money, not through his lending corporation, but personally. In the circumstances, Mr. Stevenson did not feel bound to disclose this fact to the firm that employed him. In our opinion, this explanation does not hold up under scrutiny. A person who has worked his whole life in the securities industry knows, or should know, that the industry is founded on the investors' confidence in their representatives and the firms that employ them. That said, one would have to be quite limited mentally not to realize that a supervisor who is indebted to a supervisee is likely to turn a blind eye to irregularities committed by the supervisee, thus besmirching the reputation of the firm where they work and, ultimately, the entire securities industry. This type of conflict of interest is incompatible with the gatekeeper role that is conferred on an officer.

¶ 17 That said, the following mitigating factors must be kept in mind. According to the representations that were made before us, neither the client nor the firm suffered any harm. Mr. Stevenson did not act fraudulently and the counts against him are more the result of bad judgment than malicious intent, which is a material consideration in terms of the "reprehensibility" factor. Mr. Stevenson did not benefit from the violations. He has no prior disciplinary history and he cooperated fully in the investigation. He is a man in his early sixties who will have to take courses and rewrite exams in spite of his long experience. The penalty will have a serious impact on him.

¶ 18 Now, regarding the jurisprudence, our Hearing Panel carefully examined the disciplinary decisions that were brought to our attention. A brief comment on each is warranted.

¶ 19 In *Simon Schillaci*[1], the matter concerned a failure to supervise, and inadequate supervision records. The penalties included a $15,000 fine, with costs ($10,000), as well as the requirement to rewrite and pass the Effective Management Seminar and the Options Supervision Course. In the matter before us, the fine is aggregate, and covers all violations. It is normal that it be more severe than that imposed on Mr. Schillaci, because of the violations in connection with the conflict of interest. However, it should also be kept in mind that Mr. Stevenson has been suspended as an officer and will be subject to close supervision.

¶ 20 In *Robert Roy Morrison*[2], the matter also concerned a failure to supervise. He was fined $35,000 and ordered to pay costs set at $4,000. In addition, he was barred from approval in a supervisory capacity for three years and had to rewrite the Branch Managers' examination. This matter differs from ours, on the one hand, because there was no conflict of interest and, on the other, because the various clients did suffer harm as a result of Mr. Morrison's inadequate supervision.

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1 Bulletin No. 3609, February 5, 2007;
2 Bulletin No. 3141, April 28, 2003;

¶ 21 In *Frank Youden*[3], the latter was ordered to pay a $70,000 fine and $15,000 in costs, and required to rewrite the Branch Managers' Course for failing to supervise a representative's trading activity. In this case, two of the representative's clients were harmed over a period of two years and suffered substantial financial losses. The fine imposed by the Hearing Panel is significantly heavier than in the present case, but it should be noted that Mr. Youden was not suspended, unlike the matter before us. This disparity in itself justifies the higher fine.

¶ 22 In *Richard Mills*[4], the matter again concerned supervision with respect to two clients of a representative. The penalty was a $50,000 fine, and costs set at $35,000, along with the requirement to rewrite and pass the branch managers' exam. No suspension was imposed, unlike the matter before us, so the amount of the fine and costs is relative. Furthermore, the clients concerned had suffered serious losses.

¶ 23 In *Roger Racine*[5], the matter, here too, involved inadequate supervision of account openings and trading. The offender was fined $30,000 and suspended as Branch Manager for six months, with the requirement of repeating and passing the Branch Managers' course, as well as the Options Supervisors' course. Numerous clients suffered from this failure to supervise and the financial losses were substantial. This last aggravating factor is certainly not an issue in the matter before us.

¶ 24 In *Peter Bacsalmasi*[6], the matter also concerned a failure to supervise a representative and to ensure that the acceptance of orders for two clients' accounts were within the bounds of good business practice. The fine was for $25,000, and the costs $4,500; and Bacsalmasi was further required to re-write and pass the Partners, Directors and Senior Officers Qualifying Examination. It should be noted that, in this matter, the offender was not suspended.

¶ 25 In *Stephen Brook Toban*[7], the counts included facilitating the opening of accounts for 35 non-Canadian residents without ensuring that each account opening was legitimate, as well as facilitating trading in these accounts without ensuring their legitimacy. Mr. Toban had, furthermore, effected trades in a client's account on the instructions of an unauthorized person. The penalties assessed were very severe in that Mr. Toban was permanently barred from approval in any capacity; was fined $100,000, and ordered to pay costs of $25,000, in addition to reimbursing the commissions generated by the transactions. In the opinion of our Hearing Panel, the facts in this matter were especially grave, and have nothing in common with the facts in the Stevenson matter. On the other hand, this decision illustrates the range of circumstances that may be involved in a failure to supervise by an officer.

¶ 26 In *Chak Ng*[8], a representative had unknowingly facilitated market manipulation. While this matter does not concern an officer, it is material to the matter before us, if only to underscore the existence of a violation, even in the absence of malicious intent. When it imposed a suspension on Mr. Ng, the Hearing Panel explained that market manipulation is very damaging to the investor public and the integrity of the securities industry. One must prevent a simple fine from being perceived as a mere slap on the hand, and a suspension is appropriate most of the time, even in the absence of malicious intent. In Mr. Stevenson's case, we find a suspension from acting in the capacity of an officer for a period of 12 months, which confers a definite deterrent effect on the penalty.

¶ 27 In *Robert Faiello*[9], the latter was imposed a $20,000 fine and a two-year suspension from acting in any capacity in the securities industry. He was also required to successfully complete the Conduct and Practices Handbook Course, and ordered to pay costs in the amount of $5,000. In this case, there was market manipulation, and the Hearing Panel concluded that even if Mr. Faiello did not realize that manipulation had

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3 Decision of October 30, 2007
4 Bulletin No. 2842, April 17, 2001;
5 Reported in Quicklaw (2006) 1 D.A.C.D. no. 24;
6 Bulletin No. 3262, March 15, 2004;
7 Bulletin No. 3615, March 16, 2007;
8 Reported in Quicklaw (2007), 1 D.A.C.D. no. 47;
9 Bulletin No. 3605, January 24, 2007;

occurred, he had failed in his gatekeeper duty and should have known that the client was using his account to manipulate the market.

¶ 28 In *Donald Little*[10], it was not a matter of lack of supervision, but of a representative having personally accepted a large sum of money from an elderly client, without the knowledge and without the consent of the firm that employed him. The Hearing Panel took into account that he had been unable to find work for 14 months following his dismissal and, for this reason, did not impose a suspension. Mr. Little was assessed a fine of $15,000, with costs, and was required to rewrite the examination based on the Conduct and Practices Handbook Course.

¶ 29 In *Robert Scott Ritchie*[11], the matter concerned financial dealings between a representative and a client, without the knowledge and without the consent of the firm that employed said representative. The fine was for $10,000, plus $1,000 in costs. The representative was also subject to close supervision for a period of 12 months.

¶ 30 In *David Wayne Gradidge*[12], the representative had purchased a property with a client, without the knowledge of his employer. He had also loaned money to the same client, and had pooled his own funds with those of another client to purchase securities for that client. He had also loaned money to a third client and had sold him a property, all without the knowledge of the firm that employed him. Aside from the reimbursement of commissions and profits, he was imposed a fine of $60,000, and $5,000 in costs. He was also required to rewrite and pass the Conduct and Practices Handbook exam, and was subject to close supervision for 12 months. He was also prohibited from personally purchasing securities of any public corporation or income trust for a period of 24 months.

¶ 31 Finally, in *Ronald Keith Furevick*[13], a representative failed to disclose to his employer that he was himself the beneficial owner of an account opened in another person's name. He also misrepresented to Compliance Staff that the trades in this account had been ordered by the person in whose name the account was opened. Finally, he engaged in unauthorized trading in the accounts of five clients. He was imposed an 18-month suspension of approval in any capacity; a 10-year suspension of approval in any supervisory capacity; a condition that he rewrite the Conduct and Practices Handbook exam; a one-year period of close supervision; and a fine of $35,000.

¶ 32 The jurisprudence shows, without a doubt, the wide variety of penalties that are possible, both in matters of supervisory failure and conflicts of interest, as well as non-disclosure to the firm of the existence of circumstances that might give an impression of conflict of interest. In every case, as we can see, the objective and subjective gravity of the violations must be taken into account, and the chosen penalty, accordingly, more or less severe.

¶ 33 As for the matter before us, the penalty imposed on Mr. Stevenson is definitely a deterrent. For a man who has worked in the securities industry his entire life, revocation of his approval in any capacity for a period of 12 months, the prohibition from working as an officer for 12 months, the requirement that he rewrite the exams before he can qualify in an officer category or supervisory capacity, including the Conduct and Practices Handbook exam, not to mention a condition of close supervision as a Representative, Options, are all penalties with a sufficient deterrent effect, for him and for anyone working in the securities industry. These sanctions are in addition to an aggregate fine of $50,000 and costs set at $5,000.

¶ 34 All of these penalties, given the particular circumstances surrounding the commission of these violations, persuade our Hearing Panel that the sanctions agreed between IIROC and Mr. Stevenson are within the bounds of a just and reasonable penalty.

¶ 35 FOR THESE REASONS, OUR HEARING PANEL: *HEREBY approves the Settlement Agreement.*

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10 Bulletin No. 3644, July 9, 2007;
11 Bulletin No. 3459, September 7, 2005;
12 Bulletin No. 3579, October 30, 2006;
13 Bulletin No. 3664, August 28, 2007;

November 19, 2008

Me Danielle Le May, Hearing Panel Member

Elaine C. Phenix, Hearing Panel Member

Me Jean-Pierre Lussier, Hearing Panel Chair

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SETTLEMENT AGREEMENT

I. INTRODUCTION

1. The Enforcement Department Staff ("Staff") of the Investment Dealers Association of Canada ("IDA") has conducted an investigation ("the Investigation") into the conduct of Donald Philip Stevenson ("the Respondent").

2. The Investigation was conducted by Enforcement Department Staff of the IDA prior to May 30, 2008. On June 1, 2008, Investment Industry Regulatory Organization of Canada ("IIROC") consolidated the regulatory and enforcement functions of the Investment Dealers Association of Canada and Market Regulation Services Inc. Pursuant to the *Administrative and Regulatory Services Agreement* between IDA and IIROC, effective June 1, 2008, the IDA has retained IIROC to provide services for IDA to carry out its regulatory functions.

3. The Investigation discloses matters for which the Respondent may be disciplined by a hearing panel appointed pursuant to IIROC Transitional Rule No.1, Schedule C.1, Part C ("the Hearing Panel").

II. Joint Settlement Recommendation

4. The Respondent consents to be subject to the jurisdiction of IIROC.

5. Staff and the Respondent consent and agree to the settlement of these matters by way of this settlement agreement ("the Settlement Agreement") in accordance with IIROC Dealer Member Rules 20.35 to 20.40, inclusive and Rule 15 of the Dealer Member Rules of Practice and Procedure.

6. The Settlement Agreement is subject to acceptance by the Hearing Panel.

7. The Settlement Agreement shall become effective and binding upon the Respondent and Staff as of the date of its acceptance by the Hearing Panel.

8. The Settlement Agreement will be presented to the Hearing Panel at a hearing ("the Settlement Hearing") for approval. Following the conclusion of the Settlement Hearing, the Hearing Panel may either accept or reject the Settlement Agreement.

9. If the Hearing Panel accepts the Settlement Agreement, the Respondent waives his/her/its right under IIROC rules and any applicable legislation to a disciplinary hearing, review or appeal.

10. 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 in relation to the matters disclosed in the Investigation.

11. The Settlement Agreement will become available to the public upon its acceptance by the Hearing Panel.

12. Staff and the Respondent agree that if the Hearing Panel accepts the Settlement Agreement, they, or anyone on their behalf, will not make any public statements inconsistent with the Settlement Agreement.

13. Staff and the Respondent jointly recommend that the Hearing Panel accept the Settlement Agreement.

III. Statement of Facts

(i) Acknowledgment

14. Staff and the Respondent agree with the facts set out in this Section III and acknowledge that the terms of the settlement contained in this Settlement Agreement are based upon those specific facts.

(ii) Factual Background

A. The Respondent

15. At all relevant time, the Respondent was approved as Co-Branch Manager for Research Capital Corporation, ("RCC"), an IDA Member, at the Montreal Branch located at 4 Place Ville-Marie, Suite 100, Montreal, Quebec.

16. The Respondent has begun in the industry in 1967 and has worked with many firms until December of 1998, when he joined RCC as Registered Representative with Options.

17. He has been approved as Co-Branch Manager from April of 2001 to October of 2006. He is also approved as Sales Manager and VP Senior since 1999 and as Director of RCC since 2003.

B. The investigation

18. While conducting an investigation into the conduct of MB, a Registered Representative under the supervision of the Respondent at the Montreal Branch of RCC, following the arrest in United States in January of 2006, of a significant client of MB for money laundering, the Enforcement division of the IDA initiated an investigation into the supervision of MB by the Respondent.

19. Following MB' dismissal on January 30, 2006, RCC promptly initiated an internal investigation.

C. Summary of relevant facts

20. Around the end of 2000 or the beginning of 2001, the Respondent has assumed the role of developing a retail division of the Montreal Branch of RCC which, until then, had mostly institutional business activities.

21. In April of 2001, he was named Co-Branch Manager of the Branch. Around July of 2001, he recruited R.H., a Representative until then employed with another IDA member firm.

22. At the time of his hiring, R.H. would have asserted his interest for hiring also M.B., a Registered Representative who was working with him at his former firm, to work in a team with him at this new branch.

23. The Respondent did not object to it, mainly because of MB' reputation of being a representative having developed an important business generating substantial commissions.

24. Thereby, MB transferred with RCC a few weeks after R.H., on or around July 23, 2001.

25. The registration approval of MB was subject of a condition of strict supervision since 1999, imposed by both the Bourse de Montréal and the IDA.

26. The Respondent had to perform this strict supervision and to file monthly written reports of it to the IDA and the Bourse de Montréal, using the relevant standard forms.

27. The strict supervision requirement included, notably, the duty to approve every purchase and sale orders made by MB in the accounts of his clients prior to their execution and that the accounts of his clients be verified on a daily and monthly basis.

28. Since 2001, when he joined RCC, and until the removal of the strict supervision requirement, MB was having almost no clients directly assigned to him and was essentially performing his activities through a joint code with his colleague R.H.

29. MB did not spend a lot of time at the branch office.

30. The strict supervision requirement for MB was removed in 2002 by the IDA and in February of 2003 by Bourse de Montréal.

31. MB began to receive commissions under his own code in March 2003 after R.H. left the firm.

32. In May of 2003, following the removal of the strict supervision requirement, MB opened, under his own representative code, accounts for thirteen offshore companies incorporated in Bahamas, and for five more after that.

33. Apparently, according to the account opening documentation, the offshore companies were all located at the same address in Nassau, and were all controlled by someone by the name of M.T, the same who controlled two offshore corporations, for those accounts were already opened on the joint code of RH and MB since 2001.

34. In opening these new corporate accounts, on each form, MB inaccurately indicated that neither the client nor any person having authority over the account had other accounts or the control over other accounts at RCC.

35. But actually, all the corporations were controlled by the same person, M.T. who was having the exclusive authority over the accounts of each of these corporations.

36. The Respondent knew or should have known that the information indicated by MB on the forms was inaccurate and should have intervened properly before approving the opening of these accounts.

37. At the question as to how much long the RR has known the client, most of the forms were left in blank; some were answered by "since ten years"; others by "since 5 years" and one other by "since 15 years".

38. On each form, at the question as to whether the representative was duly registered in the jurisdiction where the client resides, i.e. the Bahamas, MB answered "yes" on some forms, answered "no" on some others and left the section in blank on other ones.

39. In the section where the type of business has to be specified on the form when the client is a corporation, MB indicated "investments" on some of the forms and nothing on the other ones.

40. As regard to the requested information related to the bank reference and credit checking, no information was provided BM on the opening forms.

41. The Respondent should have paid more attention to the information indicated or missing on the forms before approving the opening of all these offshore corporation accounts. There is no evidence of any inquiry or further verification made in this regard by the Respondent.

42. Afterwards, MB' productivity turned out to be not the one expected by the Respondent. MB was doing very little developments in these accounts He was not frequently present at the branch office.

43. The Respondent did only perform a summary supervision of MB' activities without maintaining, as required, an appropriate record of his interventions if any, of the answers obtained and their follows-up.

44. The Respondent's concerns were more related to the low level of development by MB, whose activities generated not a lot of commissions. Therefore, his interventions with MB were mostly oriented on his level of productivity.

45. On August 16, 2005, in a compliance questionnaire that he had to answer at RCC, MB stated being not involved in any other business out of his employment at RCC, nor to have any other activity generating revenue.

46. In fact, beside his professional activities as representative and without the knowledge of RCC, MB was operating a business of private loan at high interest rate, through a numbered corporation.

47. The Respondent maintained that he was not aware of this undisclosed commercial activity of MB and the existence of a corporation constituted for that purpose.

48. In or around October of 2005, MB would have proposed to the Respondent to grant him a loan for the realization of his personal building project.

49. Given that this avoided him the need to liquidate securities held in his account, the Respondent accepted MB' proposal. The Respondent did not denounce this loan disclose his employer.

50. On or around October 11, 2005, following MB' instructions to MT, a sum of $50,000 was wired from an offshore corporation of his client MT towards the personal bank account of the Respondent. According to the Respondent, he was unaware of the source of the wired money.

51. On or around October 28, 2005, the Respondent signed a contract with MB confirming that he personally obtained from the latter a private loan.

52. According to the agreement, this loan granted for an amount up to $200,000, had an interest rate of 12% and was repayable in its totality on December 31, 2007.

53. The Respondent did not inform the compliance department of his firm of this transaction by which he became financially liable towards an employee under his immediate supervision, nor did he obtain RCC' prior authorization before engaging into this transaction.

54. On or around November 8, 2005, the Respondent received another sum of $25,000 pursuant to the loan agreement.

55. In November 2005, the Chief of Compliance went to the Montréal Branch to follow-up on an audit completed in February. In performing a random review of the branch emails, she discovered several emails sent by MB to third parties which caused her to believe that MB might be involved in an external loan business.

56. On November 15, 2005, with the Respondent, she met with MB to discuss about what she discovered. MB confirmed having a business of loans specialized in high risk loans at high rates, through a numbered corporation. He provided them with a list of persons with whom he has dealt loan businesses through his numbered corporation and stated that there was no confusion between his loan activities and his professional activities at RCC.

57. Even on this occasion, the Respondent continued to say nothing about being indebted to this representative that he was having the responsibility to supervise.

58. The same day, on or around November 15, 2005, by internal email of which a copy was sent to the Respondent, the Chief of Compliance informed some people at RCC of the fact that MB was operating a business offering loan services by the intermediary of a numbered corporation and from which he got revenues.

59. Neither at that time nor after, the Respondent disclosed the existence of the loan that he obtained from MB, or the amount for which he was liable to him.

60. Few days later, on November 24, 2005, the Respondent received from MB a new advance of $46,000 under the loan agreement and, on December 16, 2005, another sum of $65,000.

61. On January 24, 2006, the press announced that MT, MB' client of Bahamas, had been arrested by U.S. authorities and was facing accusation for money laundering through one of his corporation.

62. Given the seriousness of the announced accusations, the Risk Management Department of RCC immediately froze the accounts having been identified as being under the control or the authority of MT and gave notice of it to the competent authorities.

63. The Compliance Department of RCC then initiated an internal investigation on MB' activities with regard to the corporate accounts of his client MT.

64. On January 25, 2006, the Ontario Securities Commission ordered the freezing of the assets of all accounts controlled by MT, followed by an order by the Autorité des marchés financiers on January 26, 2006 requiring information about MT' corporation.

65. It is only in the course of its investigation that the Compliance Department of RCC finally discovered the existence of the loan transaction between the Respondent and MB.

66. Effectively, during the internal investigation, the Compliance Department discovered an email of MB requesting the transfer, from an offshore corporation controlled by his client MT, of a sum of $50,000 to the personal bank account of the Respondent.

67. On January 27, 2006, this email was forwarded to the Respondent by the Chief of Compliance to obtain explanations.

68. The same day, being confronted to the fact, the Respondent recognized having borrowed money from MB, but specified having not being aware that the money could come from anywhere else than MB personally.

69. This is therefore only following the discovery of this email that the Respondent admitted to his Compliance Department that he owed money to his subordinate.

70. Shortly after, the Respondent provided his Compliance Department with a copy of the loan agreement he had entered into with MB.

71. On January 29, 2006, MB gave notice of his resignation by email sent to the Respondent.

72. On February 6, 2006, sums totaling $186,000 had been advanced to him under the terms of the loan agreement.

73. On February 7, 2006, a letter of reprimand was sent to the Respondent by the president of RCC.

74. In his answer to the reprimand letter, the Respondent recognized his lack of judgment in placing himself in conflict of interest and undertook to avoid such situation in the future.

75. This event has not been reported by RCC in the *Comse*t system of the IDA.

76. On RCC' instruction in the reprimand letter, the Respondent did not reimburse to MB the sums received as of then under the terms of the loan and totaling $186,000.

77. After these events, the Respondent ceased to be Manager of the Montreal Branch of RCC. He continued to perform his functions in the other positions he is still be filling at RCC.

IV. Contraventions

78. The Respondent admits to the following contraventions of IIROC Rules, Guidance, IDA By-Laws, Regulations or Policies:

No.1

During the period from May 2003 to August 2005, the Respondent failed to properly exercise his gatekeeper duty in his supervision of the opening, by a RR, of accounts for twenty (20) offshore corporations with the same designated beneficiary, without properly inquiring and in approving them while the required information was incomplete, inaccurate or missing on the forms, contrary Regulation 1300.2 and Policy no.2, thereby failing to ensure that the opening of these accounts was within the grounds of good business practices, contrary to By-law 29.1.

No. 2

During the period from 2001 to 2006, the Respondent failed to keep proper tracking and record of his branch supervisory daily and monthly reviews and of his inquiries and their follows-up, as required by Policy no.2.

No. 3

On or around October 28, 2005, the Respondent placed himself in conflict of interest in obtaining a personal loan from one of his subordinate, thereby placing his personal interest over his supervisory duty and compromising his independence in the exercise of the responsibilities he owed in this regard, contrary to By-law 29.1.

No. 4

On or before October 28, 2005, the Respondent failed to obtain the prior approval of his employer before entering into a personal financial business with an employee under his direct supervisory authority and, until this was discovered by his compliance department in January 2006, and especially in November 2005, when he was made aware that this employee was operating an undisclosed business of loans, he never disclosed having himself became a debtor of this employee by obtaining from him a loan for an amount of $200,000, contrary to By-law 29.1.

VI. Terms of Settlement

79. The Respondent agrees to the following terms of settlement:

a) A global fine in the amount of fifty thousand dollars ($50,000), with respect to Contraventions no.1 to no.4, payable to IIROC on the effective date of the Settlement Agreement unless otherwise agreed by the parties;

b) Suspension from approval as Sales Manager, Officer and Director, including revocation of Senior Vice-President designation, for a period of 12 months commencing on the effective date of the Settlement Agreement;

c) Prohibition on approval by IIROC in the position of Branch Manager, Co-Branch Manager or Officer, or to act in any other management, compliance or supervisory function, for a period of twelve (12) months commencing on the effective date of the Settlement Agreement;

d) Successful completion of the Partners, Directors and Senior Officers Qualifying Examination, administered by the Canadian Securities Institute, prior to any approval or re-approval in any officer position or compliance or supervisory function;

e) Successful completion of the Branch Managers Course, administered by the Canadian Securities Institute, prior to any approval or re-approval in the capacity of Branch Manager or Co-Branch Manager;

f) Successful completion of the Conduct and Practice Handbook Examination, administered by the Canadian Securities Institute, within six (6) months from the effective date of the Settlement Agreement as a condition upon his existing approval as Registered Representative with Options;

g) Requirement of on-site close supervision, in the manner prescribed by IIROC as a condition upon his existing approval as Registered Representative with Options, for a period of twelve (12) months commencing on the effective date of the Settlement Agreement.

h) Requirement that Close Supervision Reports (Appendix A), signed by the Branch Manager and countersigned by the Chief Compliance Officer, be filed monthly with the Registration Department of IIROC to confirm the close supervision of the Respondent.

80. The Respondent shall pay a portion of Staff's costs of this proceeding in the amount of five thousand dollars ($5,000.00), payable immediately upon the effective date of the Settlement Agreement unless otherwise agreed by the parties.

AGREED TO by the Respondent at the City of Montreal in the Province of Quebec, this 29th day of September, 2008.

Witness signature **"Donald P. Stevenson"**
Witness **Donald P. Stevenson**
Respondent

AGREED TO by Staff at the City of Montreal in the Province of Québec, this 30th day of September, 2008.

Witness signature **"Sylvie Poirier"**
Witness **Sylvie Poirier**
ENFORCEMENT COUNSEL
on behalf of Staff of the Investment Industry Regulatory Organization of Canada

ACCEPTED at the City of Montreal in the Province of Québec, this 19th day of November, 2008, by the following Hearing Panel:

Per: Jean- Pierre Lussier
Panel Chair
Per: Elaine Phenix
Panel Member
Per: Danielle Le May
Panel Member