

Re Watson

IN THE MATTER OF:

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

and

The Universal Market Integrity Rules

and

James William Watson

2012 IIROC 75

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

Heard: October 17, 2012

Hearing Panel:

Mr. Patrick Galligan – Chair, Mr. Peter Gribbin and Mr. Donald Lawson

Appearances:

Mr. Charles Corlett, Counsel for IIROC

Mr. James William Watson, Respondent

SETTLEMENT ACCEPTED

OFFER OF SETTLEMENT

A. INTRODUCTION

¶ 1 The Enforcement Department Staff (Staff) of the Investment Industry Regulatory Organization of Canada (IIROC) has conducted an investigation (the Investigation) into the conduct of James William Watson (the Respondent).

¶ 2 The Investigation has disclosed matters for which IIROC seeks certain sanctions against the Respondent pursuant to Rule 10.5 of the Universal Market Integrity Rules (UMIR).

¶ 3 If this Offer of Settlement is accepted by the Respondent, the resulting settlement agreement (the Settlement Agreement), which has been negotiated in accordance with Part 3 of UMIR Policy 10.8, is conditional upon the approval by a hearing panel appointed pursuant to IIROC Transitional Rule No.1, Schedule C.1 (the Hearing Panel).

¶ 4 The Respondent agrees to waive all rights under UMIR to a hearing or to an appeal or review if the Settlement Agreement is approved by the Hearing Panel.

¶ 5 The Respondent consents to be subject to the jurisdiction of IIROC and its relevant disciplinary process and rules in relation to this matter.

¶ 6 Staff and the Respondent jointly recommend that the Hearing Panel accept this Settlement Agreement.

B. AGREEMENT AS TO REQUIREMENTS CONTRAVENED

¶ 7 The Respondent agrees to the following contravention:

- (i) Between November 2010 and April 2011, James William Watson, a proprietary trader employed by Jones, Gable & Company Limited, entered orders that he knew, or ought reasonably to have known, would create, or could reasonably be expected to create, a false or misleading appearance of trading activity in or interest in the purchase of Mayen Minerals Ltd (listed on the TSXV under the symbol “MYM”) or an artificial bid price for MYM contrary to Universal Market Integrity Rule (“UMIR”) 2.2(2) and UMIR Policy 2.2, for which he is liable under UMIR 10.4(1).

C. ADMITTED FACTS

¶ 8 For the purposes of this Settlement Agreement only, Staff and the Respondent agree with and rely upon the admitted facts and conclusions which are set out in the Statement of Allegations attached as Appendix A to this Settlement Agreement.

D. DISPOSITION

¶ 9 For the contravention in paragraph 7 above, Staff and the Respondent have agreed upon disposition as follows:

- (i) a fine of \$10,000.00 payable by the Respondent to IIROC;
- (ii) a suspension of access to IIROC-regulated marketplaces for 14 days beginning October 29, 2012; and
- (iii) costs of \$1,500.00 payable by the Respondent to IIROC.

¶ 10 If this Settlement Agreement is accepted by a Hearing Panel, the Respondent agrees to pay the amounts referred to in paragraph 9 within 30 days of such acceptance.

E. PROCEDURES FOR ACCEPTANCE OF OFFER OF SETTLEMENT AND APPROVAL OF SETTLEMENT AGREEMENT

¶ 11 The Respondent shall have until the close of business on September 4, 2012 to accept the Offer of Settlement and serve an executed copy thereof on Staff.

¶ 12 This Settlement Agreement shall be presented to a Hearing Panel at a public hearing (the Approval Hearing) held for the purpose of approving the Settlement Agreement, in accordance with the procedures described in UMIR Policy 10.8 in addition to any other procedures as may be agreed upon between the parties. The Respondent acknowledges that IIROC shall notify the public and media of the Approval Hearing in such manner and by such media as IIROC sees fit.

¶ 13 Pursuant to Part 3.4 of UMIR Policy 10.8, the Hearing Panel may accept or reject this Settlement Agreement.

¶ 14 In the event the Settlement Agreement is accepted by a Hearing Panel, the matter becomes final, there can be no appeal or review of the matter, the disposition of the matter agreed upon in this Settlement Agreement will be included in the permanent record of IIROC in respect of the Respondent and IIROC will publish a summary of the Requirements contravened, the facts, and the disposition agreed upon in the Settlement Agreement.

¶ 15 In the event the Hearing Panel rejects the Settlement Agreement, IIROC may proceed with a hearing of the matter before a differently constituted Hearing Panel pursuant to Part 3.7 of UMIR Policy 10.8 and this Settlement Agreement may not be referred to without the consent of both parties.

¶ 16 The Respondent agrees that, in the event he fails to comply with any of the terms of the Settlement Agreement, IIROC may enforce this settlement in any manner it deems appropriate and may, without limiting the generality of the foregoing, suspend the Respondent’s access to marketplaces regulated by IIROC until IIROC determines that the Respondent is in full compliance with all terms of the Settlement Agreement.

¶ 17 The Respondent agrees that neither he, nor anyone on his behalf, will make a public statement inconsistent with this Settlement Agreement.

IN WITNESS WHEREOF the parties have signed this Settlement Agreement as of the dates noted below.

DATED at Toronto, Ontario on the 6th day of September, 2012.

“Witness”

“James William Watson”

Witness Signature

James William Watson

DATED at Toronto, Ontario on the 19th day of July, 2012.

Per: “Jeff Kehoe”

JEFFREY KEHOE

VICE-PRESIDENT, ENFORCEMENT

INVESTMENT INDUSTRY REGULATORY ORGANIZATION OF CANADA

Suite 2000, 121 King Street West

Toronto, Ontario M5H 3T9

This foregoing Settlement Agreement is hereby approved this 17th day of October 2012, by the following hearing panel constituted to review the terms thereof:

Per: “The Honourable Patrick Galligan”

Panel Chair

Per: “Mr. Peter Gribbin”

Panel Member

Per: “Mr. Donald Lawson”

Panel Member

STATEMENT OF ALLEGATIONS

I. REQUIREMENTS CONTRAVENED

1. Between November 2010 and April 2011 (the “Relevant Period”), James William Watson (the “Respondent”), a proprietary trader employed by Jones, Gable & Company Limited, entered orders that he knew, or ought reasonably to have known, would create, or could reasonably be expected to create, a false or misleading appearance of trading activity in or interest in the purchase of Mayen Minerals Ltd (listed on the TSXV under the symbol “MYM”) or an artificial bid price for MYM contrary to Universal Market Integrity Rule (“UMIR”) 2.2(2) and UMIR Policy 2.2, for which he is liable under UMIR 10.4(1).
2. Schedule “A” sets out the text of the relevant UMIR Requirements.

II. RELEVANT FACTS AND CONCLUSIONS

Overview

3. During the Relevant Period, the Respondent entered orders to effect a high closing bid price for MYM that misrepresented the performance and actual demand for the security and improved the profit and loss position of the MYM shares held in his inventory account.

Background

4. Jones, Gable & Company (“Jones, Gable”) is registered as an investment dealer and is a Participant under UMIR.
5. The Respondent has been employed in the securities industry since 1979 and has been a proprietary inventory trader at Jones, Gable since 2009. The Respondent has worked in the securities industry for over 30 years and has no prior disciplinary history.
6. During the Relevant Period, the Respondent also acted as the market maker for approximately five securities listed on the TSX.
7. During the Relevant Period, MYM was categorized by the TSXV as a Tier 2 issuer and was thinly-traded.

Inventory Account and Compensation

8. During the Relevant Period, the Respondent’s inventory account had a daily capital limit of \$100,000.
9. During the Relevant Period, the Respondent’s compensation was based on the net total of the realized and unrealized profits and losses generated from trading in his inventory account. The Respondent was paid 50% of his net trading profits on a monthly basis.
10. The Respondent reviewed his daily inventory reports and was aware of the profit and loss position of the securities held in his inventory account.
11. Trading profits and losses were calculated on a “mark to market” basis. Jones, Gable valued the Respondent’s long inventory positions using the closing bid price on the third trading day before the last trading day of the month.
12. The Respondent was aware of the valuation date used by Jones, Gable to calculate the profit and loss position of his inventory account.

The MYM Position

13. The Respondent first purchased MYM on or about November 17, 2010 and maintained a long position in the security throughout the duration of the Relevant Period.
14. The size of the Respondent’s inventory position and the closing bid as of each valuation date is set out below:

<i>Valuation Date</i>	<i>Inventory Position</i>	<i>Closing Bid</i>
November 25, 2010	38,000	\$0.71
December 24, 2010	50,000	\$0.63
January 26, 2011	47,000	\$0.62
February 23, 2011	50,500	\$0.56
March 28, 2011	51,500	\$0.48
April 26, 2011	65,500	\$0.45

15. The closing bids entered on the valuation dates, as described further below, had the effect of artificially increasing the value of the Respondent’s inventory account. The increase to the inventory value of the MYM position ranged from a low of \$380 in November 2010 to a high of \$4,797.50 in February 2011. The Respondent ultimately sold the position at a loss.

Closing Bid Activity in MYM on Valuation Dates

16. On each valuation date, the Respondent entered orders that improved the prevailing bid and set the closing bid used to calculate the profit and loss position of MYM.

17. On each valuation date, the Respondent entered a small day order (for one or two Standard Trading Units) that expired at the end of the day unfilled and set the closing bid.
18. On each valuation date, the closing bid for MYM could have been filled at the current ask price for a nominal difference in cost (in the range of \$10 to \$60 for each valuation date) relative to the size and value of the Respondent's inventory position.
19. The Respondent's trading activity on valuation dates (small passive buy orders) was inconsistent with his trading activity when he acquired the bulk of his position (relatively large orders immediately executed from the shares on offer in the marketplace or relatively large orders entered early in the trading day).
20. On the November, December, January, February and March valuation dates, the Respondent did not purchase any shares and set the closing bid with a small day order.
21. On the April valuation date, the Respondent entered an order early in the trading day for 5,000 shares at \$0.45 taking out two levels of sell orders in the book and widening the spread. The Respondent waited until the last hour of the trading day to enter a buy order for 1000 shares (two Standard Trading Units) at \$0.45 which became the closing bid of the day.
22. The Respondent's trading activity on each valuation date in November, December, January and February was inconsistent with his trading activity surrounding the valuation date in question. For example, the Respondent's bid for a 1000 shares at \$0.62 on the January 26 valuation date was the first bid he had entered in MYM for 10 trading days. The Respondent sold 9500 shares at \$0.62 the day before and 3000 shares at \$0.62 the day after the January valuation date. The Respondent did not enter another buy order for the security for 4 trading days.

Closing Bid Activity in MYM in March and April

23. In March and April, the Respondent set the closing bid more frequently. Between March 9 and April 28 (36 trading days), the Respondent set the closing bid 34 times with small day orders but only purchased shares on 5 days, acquiring 20,000 shares. He was responsible for the opening bid on only 5 days.
24. Although the Respondent was bidding almost daily, he was not actively buying, and was entering small day orders for a thinly-traded security late in the day (23 of 34 orders were entered in the last hour of the trading day).
25. The number of times the Respondent was the closing bid during this period was disproportional to the number of shares he purchased.
26. The Respondent has acknowledged that his purpose in entering bids during the period of March and April was to narrow the spread and "make it appear like there's a little more of a market in the stock."

III. CONCLUSION

27. The purpose of UMIR 2.2(2) and Policy 2.2 is to protect the marketplace from false or misleading trading or artificial pricing, which undermines the integrity of the marketplace and erodes investor confidence.
28. During the Relevant Period, the Respondent entered orders to effect a high closing bid price for MYM. The Respondent's high closing bids misrepresented the performance and actual demand for the securities to the market and to other market participants and improved the profit and loss position of the MYM shares held in his inventory account.
29. As an experienced trader and market maker, the Respondent knew, or ought reasonably to have known, that his closing bids would create, or could reasonably be expected to create, a false or misleading appearance of trading activity in or interest in the purchase of, or an artificial price for, the security.

SCHEDULE "A"

EXCERPTS FROM THE UNIVERSAL MARKET INTEGRITY RULES

2.2 Manipulative and Deceptive Activities

...

- (2) A Participant or Access Person shall not, directly or indirectly, enter an order or execute a trade on a marketplace if the Participant or Access Person knows or ought reasonably to know that the entry of the order or the execution of the trade will create or could reasonably be expected to create:
 - (a) a false or misleading appearance of trading activity in or interest in the purchase or sale of the security; or
 - (b) an artificial ask price, bid price or sale price for the security or a related security.

POLICY 2.2 – MANIPULATIVE AND DECEPTIVE ACTIVITIES

...

Part 2 – False or Misleading Appearance of Trading Activity or Artificial Price

For the purposes of subsection (2) of Rule 2.2 and without limiting the generality of that subsection, if any of the following activities are undertaken on a marketplace and create or could reasonably be expected to create a false or misleading appearance of trading activity or interest in the purchase or sale of a security or an artificial ask price, bid price or sale price, the entry of the order or the execution of the trade shall constitute a violation of subsection (2) of Rule 2.2:

- (a) *entering an order or orders for the purchase of a security with the knowledge that an order or orders of substantially the same size, at substantially the same time and at substantially the same price for the sale of that security, has been or will be entered by or for the same or different persons;*
- (b) *entering an order or orders for the sale of a security with the knowledge that an order or orders of substantially the same size, at substantially the same time and at substantially the same price for the purchase of that security, has been or will be entered;*
- (c) *making purchases of, or offers to purchase, a security at successively higher prices or in a pattern generally of successively higher prices;*
- (d) *making sales of or offers to sell a security at successively lower prices or in a pattern generally of successively lower prices;*
- (e) *entering an order or orders for the purchase or sale of a security to:*
 - (i) *establish a predetermined sale price, ask price or bid price,*
 - (ii) *effect a high or low closing sale price, ask price or bid price, or*
 - (iii) *maintain the sale price, ask price or bid price within a predetermined range;*
- (f) *entering an order or a series of orders for a security that are not intended to be executed;*
- (g) *entering an order for the purchase of a security without, at the time of entering the order, having the ability or the reasonable expectation to make the payment that would be required to settle any trade that would result from the execution of the order;*
- (h) *entering an order for the sale of a security without, at the time of entering the order, having the reasonable expectation of settling any trade that would result from the execution of the order; and*
- (i) *effecting a trade in a security, other than an internal cross, between accounts under the direction or control of the same person.*

If persons know or ought reasonably to know that they are engaging or participating in these or similar types of activities those persons will be in breach of subsection (2) of Rule 2.2 irrespective of whether such activity

results in a false or misleading appearance of trading activity or interest in the purchase or sale of a security or an artificial ask price, bid price or sale price for a security or a related security.

Part 3 – Artificial Pricing

For the purposes of subsection (2) of Rule 2.2, an ask price, bid price or sale price will be considered artificial if it is not justified by real demand or supply in a security. Whether or not a particular price is "artificial" depends on the particular circumstances.

Some of the relevant considerations in determining whether a price is artificial are:

- (a) the prices of the preceding trades and succeeding trades;*
- (b) the change in the last sale price, best ask price or best bid price that results from the entry of the order on a marketplace;*
- (c) the recent liquidity of the security;*
- (d) the time the order is entered and any instructions relevant to the time of entry of the order; and*
- (e) whether any Participant, Access Person or account involved in the order:
 - (i) has any motivation to establish an artificial price, or*
 - (ii) represents substantially all of the orders entered or executed for the purchase or sale of the security.**

The absence of any one or more of these considerations is not determinative that a price is or is not artificial.

Copyright © 2012 Investment Industry Regulatory Organization of Canada. All Rights Reserved.