**2024F FIN 4203 1 [B103] Investments Conduct and Compliance**

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Group 4

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Team Assignment: Case Study1

**Final due date:**

Your group has been assigned a disciplinary case that either has been or is currently being dealt with by IIROC. Carefully read all the relevant details of your case.

Refer to all the material that we have studied so far in the CPH course, as well as other relevant information that you learned in previous securities related courses at the college.

**In your report you must explain:**

1. **The events and actions that led to this disciplinary process.**
2. **How the (alleged) offender should have acted/behaved in their particular situation to avoid the action being taken by IIROC.**
3. **Did any principals of conducts get violated?**

ANSWER:

**1. Events and Conduct Underlying the Disciplinary Action:**

This disciplinary matter involved respondent Larry Martin of Leede Jones Gable Inc. and his failure to take action regarding a number of investment accounts that exhibited numerous "red flags" of suspicious activity. The accounts at issue, which were largely corporate accounts, evidenced unusual trading activity, including the deposit of large quantities of shares, followed by the immediate liquidation of those shares at a loss, after which the proceeds were promptly withdrawn rather than reinvested. Other accounts had foreign associations with the Marshall Islands, Hong Kong, and St. Vincent and the Grenadines, which heightened the concerns further because of potential regulatory risks. The compliance department at Martin had red-flagged such behavior because this would imply the misuse of the accounts. However, Martin took no steps to investigate or correct these suspicious patterns and was supposed, in his position, to be a "gatekeeper" against suspicious activity.

**2. How the Offender Should Have Acted to Avoid IIROC Action:**

Had Martin taken steps to review the red flags in the client accounts, he may have avoided the disciplinary results. Specifically, he should have done the following:

* Questions to be asked: Martin should have asked why large and frequent deposits and immediate sales of shares were made as they repeatedly created losses.
* Account objectives explained: He should have asked whether their investment objectives were so in tune with each other considering rare trading practices such as the prompt transfer of funds out of the accounts after every sale.
* Consult Compliance Early: The consequence would have been that, working with his compliance department, he could have taken steps to prevent these activities when they first occurred.

Quite simply, Martin had a responsibility to make sure the accounts were not being used for abusive trading. Had he investigated the suspicious patterns, he could have cleared up the problems or elevated them to be reviewed and, therefore, avoid this whole disciplinary process.

**3. Principles of Conduct Violated:**

Yes, a couple of principles of conduct have been violated, which revolve around professional responsibility and client monitoring:

* Gatekeeper Duty: Martin had the professional responsibility for acting as a gatekeeper, that is, being more proactive in monitoring client accounts for suspicious or unusual activity that helps maintain transparency and integrity in the market.
* Failure to Safeguard the Integrity of the Market: Martin failed to take due care with respect to these accounts and, therefore, he did not safeguard the integrity of the financial market. It is a duty of every broker or representative that the accounts are not used for misleading or harmful trading practices.
* Lack of Diligence: As a supervisor, Martin should have exercised greater diligence, especially since he was also in charge of overseeing these activities in his role as the supervisor at the firm.

The bottom line is that Martin did nothing in respect to the suspicious activity in violation of industry expectations. He did not take the required steps to ensure that the accounts were used properly and within regulatory expectations.

**References:**

* Investment Industry Regulatory Organization of Canada. (n.d.). *Rules and enforcement*. Retrieved from <https://www.iiroc.ca/rules-and-enforcement>
* Investment Industry Regulatory Organization of Canada. (n.d.). *IIROC homepage*. Retrieved from <https://www.iiroc.ca/>
* Canadian Investment Regulatory Organization (CIRO). (n.d.). *Principal and agent relationships*. Retrieved from <https://www.ciro.ca/news-room/publications/principal-and-agent-relationships-0#:~:text=Agreements%20between%20IIROC%20and%20Dealers,IIROC%E2%80%9D%20clauses%204%20and%205>