Scenario 1

Derek Sneak was an up and coming investment banker at Ultimate Securities specializing in the retail sector. Last Spring he was approached by Snears Holdings, a US based department store conglomerate. Snears expressed interest in acquiring Simpleton’s Department Stores, a publicly traded Canadian company listed on the TSX. Snears CEO told Sneak that it had determined that although Simpleton’s sales had been declining in recent years, it held valuable real estate holdings such that its break-up value was greater than its then current trading price. Snears planned to close all Simpleton stores following the acquisition. In strict compliance with Ultimate’s internal policies, Sneak ensured that Simpleton’s was placed on Ultimate’s watch list.

A few weeks later Sneak was at a charity golf tournament where he ran into Desmond Devine, a portfolio manager at Instigator Asset Management. Sneak told Devine that he was very busy working on a transformative deal but did not identify the nature of the transaction that he was pursuing. As luck would have it, a couple of weeks later Devine ran into Sneak again at a restaurant where he observed him dining with a gentleman with a strong mid-western accent. Sneak declined to introduce Devine to his companion but Devine concluded that he was probably a native of Chicago where Snears had its headquarters and deduced from this information that Snears was probably acquiring Simpleton’s. Devine immediately acquired 4,000 Simpleton shares through an offshore account. This was the largest share purchase he had ever made and Devine neglected to inform Instigator about his offshore accounts in violation of Instigator’s policies.

Sneak was also a bit of a sneak. He knew that once Snears’ acquisition of Simpleton’s was completed and the stores were sold, there would remain only one significant department store left in Canada, James Bay Company. Sneak had no relationship whatsoever with James Bay Company but was certain that the trading price for its shares would increase substantially once the Snears/Simpleton’s transaction was announced. Sneak acquired 50,000 James Bay Company shares through his Ultimate Securities account two days after Simpleton’s was placed on the watch list.

Scenario 2

Ultimate Securities recently acquired Agri-Trade a commodity futures dealer based in Regina Saskatchewan. Agri-Trade principally engages in the business of assisting large farmers, grain elevator operators and other companies hedge their exposure to commodity prices. Since Agri-Trade employees generally work in Regina and because they are not involved in corporate finance or M&A advisory work, no thought was given to information containment procedures as it pertained to them.

Wheat King is a publicly traded wheat producer and a long-standing Agri-Trade client. Last month, Rob Frugal, Wheat King’s CEO met with Phil Future the business head of Agri-Trade to tell him that he had decided that he was tired of incurring the ongoing costs of maintaining Wheat King’s hedging strategy in a rising wheat market and had decided to remove the hedge. Phil told Frugal that this was a terrible idea and that once this was publicly announced, institutional investors would exit their positions in Wheat King shares in droves. Frugal wouldn’t listen to him and this irritated Future. After the meeting, Future called one of his new colleagues on the Ultimate Securities trade desk and told him what had occurred. The word got out to members of the Ultimate Securities institutional sales team and large short positions in Wheat King shares were acquired in numerous portfolios. These clients were richly rewarded when wheat prices declined following a bumper crop in the Ukraine and weakening Chinese demand and Wheat King was left exposed.

Scenario 3

Acumenica Inc. is a development stage pharmaceutical company based in Mississauga. It is a reporting issuer in all Canadian Provinces but its principal regulator is the Ontario Securities Commission. Its shares are listed on the TSX and its ADRs trade on the New York Stock Exchange.

There has been a great deal of excitement in the marketplace about a chemotherapy drug that is being developed by Acumenica. Based on the results of clinical trials, the drug has proven to be effective in treating colon cancer. There have been issues regarding side-effects but Acumenica had disclosed in the marketplace that it believes that given the benefits that the drug can offer, these side-effects would not prove to be a barrier to Acumenica receiving approval for the drug from Health Canada.

Health Canada has been reviewing the data from Acumenica’s stage III clinical trials to determine whether to approve the drug.

Stan Deviant is a senior official at Health Canada. He was principally tasked with the review of Acumenica’s colon cancer chemotherapy drug. Stan attended a number of meetings at Health Canada. The issue of the side effects arose at each one. On January 22, 2012 after the Bristle Mires deal fell apart, a decision was made by Health Canada that the drug would not be approved.

Before Health Canada communicated its decision to Acumenica, Deviant engaged in a short sale transaction for 20,000 Acumenica shares at $5.00. After Acumenica received notification that the drug was not approved, it immediately issued a news release to that effect. The trading price for its shares declined to $0.50 roughly equivalent to the cash on its balance sheet. Deviant acquired shares at this price on the marketplace to cover his short position. He made a profit of about $115,000.

Scenario 4

Bob Smart is an Ultimate Securities equity research analyst. Bob prides himself on the thoroughness of his research. He has also reviewed and absorbed the regulatory rules regarding selective disclosure in Ontario. He understands that it is illegal for any of the companies he follows to disclose any information to him that is material (i.e. likely to have a significant impact on the value or price of the securities in question). Since Bob Smart is smart, he has developed a “work around” of these rules to ensure that his research is accurate and timely. He has adopted the practice of developing relationships with the controllers of divisions and subsidiaries of many companies that he follows and receives “sub-material” financial information from them each quarter. Based on this information, Bob is able to more or less recreate a quarterly income statement for many of the companies that he follows.

Bob Smart has particular expertise in the technology sector and his views carried a significant amount of credibility among investors. For several weeks Bob had been researching TurboTalk, which had developed a promising voice-recognition software program. TurboTalk had not received much attention in the market but Bob was planning to initiate research coverage with a strong buy recommendation. Prior to publishing his first report on TurboTalk, Bob attended a sales meeting with the Ultimate institutional sales desk and informed them that he was very excited about the company and let it slip that he was about to publish the report.