Discipline Notice

Market Regulation Services Inc.
Services de réglementation du marché inc.

July 6, 2006 DN 2006-008

Suggested Routing
- Trading
- Legal and Compliance

UMIR Provisions Contravened
- 7.1

Appendices
- Settlement Agreement
- Statement of Allegations

Standard Securities Capital Corporation

Summary

A Hearing Panel constituted under the Universal Market Integrity Rules approved a settlement agreement between Market Regulation Services Inc. and Standard Securities Capital Corporation. In the settlement, Standard acknowledged that it failed to implement an adequate trade supervision and compliance system as required by UMIR 7.1 Specifically, Standard Securities failed to implement adequate trade supervision policies and procedures, to maintain adequate evidence of testing, and to review its policies consistently. Prior to this proceeding, Standard rectified these deficiencies. Standard agreed to pay a fine of C$80,000 and C$20,000 in costs.

Questions / Further Information

For further information or questions concerning this notice contact:

Chilwin Cheng
Chief Counsel, Western Region

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Fax: 604.682.8514

e-mail: chilwin.cheng@rs.ca

DISCIPLINARY NOTICE

Standard Securities Capital Corporation

July 6, 2006

Persons Disciplined

On 6 July 2006, a Hearing Panel of the Hearing Committee of Market Regulation Services Inc. ("RS") approved a settlement agreement (the "Settlement Agreement") concerning Standard Securities Capital Corporation.

Requirement Contravened

Under the terms of the Settlement Agreement, Standard admits that it did the following:

> Between 1 April 2002 to 1 April 2004, Standard Securities Capital Corporation, a Participating Organization of the Toronto Stock Exchange, failed to adopt written policies and procedures to be followed by Standard's directors, officers, partners and employees that were adequate, taking into account Standard's business and affairs, to ensure compliance with the Universal Market Integrity Rules and UMIR Policies, contrary to UMIR 7.1 and UMIR Policy 7.1.

Sanctions Approved

Standard will pay to RS a fine of $80,000 and costs of $20,000

Summary of Facts

Between April 2002 and April 2004, Standard failed to implement trade supervision and compliance systems that were fully satisfactory to RS.

During this period, Standard's trading policies and procedures did not meet the minimum requirements under UMIR 7.1. For example, the policies and procedures did not:

- adequately ensure compliance with the client priority rule;
- describe methodologies as to how Standard would conduct compliance testing, quantify and summarize compliance testing results, and report problems identified from testing results to management.

Second, Standard failed to maintain adequate evidence that it conducted compliance testing and failed to review its trading policies and procedures annually as required by UMIR Policy 7.1.

In entering the settlement, RS recognized that Standard undertook significant improvements to its trade supervision and compliance systems in 2004, and that RS' trade desk review in 2005 reported no material deficiencies with Standard's trade supervision and compliance system.

DISCIPLINARY NOTICE

Standard Securities Capital Corporation

July 6, 2006

Panel Members

Chair:	The Honourable Robert Stanley Montgomery
Panel Member:	Ms. Hillery Lloyd
Panel Member:	Mr. Donald Page

Further Information

Participants who require additional information should direct questions to Chilwin Cheng, Chief Counsel, Market Regulation Services Inc., Western Region, at 604 602-6997.

About Market Regulation Services Inc. (RS)

RS is the independent regulation services provider for Canadian equity marketplaces, including the Toronto Stock Exchange, TSX Venture Exchange, CNQ, Bloomberg Tradebook Canada Company, Liquidnet Canada Inc. and BlockBook. RS is recognized by the securities commissions of British Columbia, Alberta, Manitoba, Ontario, and by the *Autorité des marchés financiers* in Québec to regulate the trading of securities on these marketplaces by participant firms and their trading and sales staff. RS helps protect investors and ensure market integrity by ensuring all equities transactions are executed properly, fairly and in compliance with trading rules.

OFFER OF SETTLEMENT

In the Matter of

The Universal Market Integrity Rules

and

Standard Securities Capital Corporation

A. INTRODUCTION

1. Market Regulation Services Inc. (*RS*) has investigated (the *Investigation*) the conduct of Standard Securities Capital Corporation (*Standard*).

2. The Investigation disclosed matters for which RS seeks certain sanctions against Standard pursuant to Rule 10.5 of the Universal Market Integrity Rules ("UMIR").

3. If Standard accepts this Offer of Settlement, the resulting settlement agreement (the "Settlement Agreement"), which Standard and RS have negotiated according to UMIR Policy 10.8, Part 3, is subject to approval by a hearing panel (the "Hearing Panel") of the Hearing Committee appointed under UMIR Policy 10.8, Part 10.

4. If the Hearing Panel approves this Settlement Agreement, Standard waives all rights under UMIR to a hearing or to an appeal or review of these matters, all rights to a hearing or review by any securities commission or any authority exercising any regulatory jurisdiction over RS, and all rights to a judicial review of these proceedings.

5. RS and Standard jointly recommend that the Hearing Panel accept this Settlement Agreement.

B. AGREEMENT AS TO REQUIREMENT CONTRAVENED

6. RS and Standard agree that Standard contravened the following Requirement under UMIR:

> Between 1 April 2002 to 1 April 2004 (the "Relevant Period"), Standard Securities Capital Corporation ("Standard"), a Participating Organization of the Toronto Stock Exchange, failed to adopt written policies and procedures to be followed by Standard's directors, officers, partners and employees that are adequate, taking into account Standard's business and affairs, to ensure compliance with the Universal Market Integrity Rules ("UMIR") and UMIR Policies, contrary to UMIR 7.1 and UMIR Policy 7.1.

C. ADMITTED FACTS

7. RS and Standard agree on the admitted facts alleged in the Statement of Allegations, attached as Appendix "A" to this Settlement Agreement.

D. DISPOSITION

8. For the contraventions in paragraph 6 above, Standard and RS have agreed upon the following disposition:

- Standard will pay RS a fine of $80,000.00; and,
- Standard will pay RS costs of $20,000.00.

9. If the Hearing Panel accepts this Settlement Agreement, Standard agrees to pay the fine and costs referred to in paragraph 8 in twenty-four equal consecutive payments ($4,166.67), payable on the last calendar day of each month, starting immediately after a Hearing Panel accepts this Settlement Agreement until the fine and costs are fully paid.

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

10. RS and Standard will present this Settlement Agreement to a Hearing Panel at a public hearing (the "Approval Hearing") held to approve the Settlement Agreement,

according to UMIR Policy 10.8 and any other procedures to which the parties may agree. Standard acknowledges that RS will notify the public and media of the Approval Hearing in such manner and by such media as RS sees fit.

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

12. If the Hearing Panel accepts the Settlement Agreement, then:

a) this matter becomes final;

b) there can be no appeal or review of the matter;

c) the disposition of the matter agreed upon in this Settlement Agreement will be included in RS's permanent record of Standard; and,

d) RS will publish a summary of the Requirements contravened, the facts, and the disposition agreed upon in the Settlement Agreement.

13. If the Hearing Panel rejects the Settlement Agreement, then RS may proceed with a hearing of the matter before a differently constituted Hearing Panel pursuant to UMIR Policy 10.8, Part 3.7 and this Settlement Agreement may not be referred to without the consent of both parties.

F. OTHER MATTERS

14. Standard agrees that if it fails to comply with any part of the Settlement Agreement, then RS may enforce this settlement in any manner it deems appropriate and may, among other enforcement methods, suspend Standard's access to marketplaces regulated by RS until RS determines that Standard has fully complied with the Settlement Agreement.

15. Standard agrees that neither it, nor anyone on its 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 in the City of Toronto, Province of Ontario on the 29th day of 2006

"Michael J. Bignell"
Witness Signature

"Standard Securities Capital Corporation"

Per:
Standard Securities Capital Corporation

Michael J. Bignell
Name of Witness

24 Hazelton Ave, Toronto, On.
Address of Witness

Dated in the City of Vancouver, Province of British Columbia on the 29th day of June 2006

"Philip Anisman"
Witness Signature

"Chilwin Cheng"
Chilwin Cheng
Chief Counsel and Acting Manager
Western Region
Market Regulation Services Inc.

Philip Anisman
Name of Witness

Address of Witness

This foregoing Settlement Agreement is hereby accepted this 6th day of July 2006, by the following hearing panel constituted to review the terms thereof:

"Hon. Robert S. Montgomery, Q.C."
Panel Chair

"Donald Page"
Panel Member

"Hillery Joslin-Lloyd"
Panel Member

IN THE MATTER OF

THE UNIVERSAL MARKET INTEGRITY RULES

AND

IN THE MATTER OF

Standard Securities Capital Corporation

OFFER OF SETTLEMENT

Issued by

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In the Matter of

Standard Securities Capital Corporation

And

Universal Market Integrity Rules

STATEMENT OF ALLEGATIONS

REQUIREMENTS CONTRAVENED

1. It is agreed that:

   Between 1 April 2002 to 1 April 2004 (the "Relevant Period"), Standard Securities Capital Corporation ("Standard"), a Participating Organization of the Toronto Stock Exchange, failed to adopt written policies and procedures to be followed by Standard's directors, officers, partners and employees that were adequate, taking into account Standard's business and affairs, to ensure compliance with the Universal Market Integrity Rules ("UMIR") and UMIR Policies, contrary to UMIR 7.1 and UMIR Policy 7.1.

2. The text of the relevant Requirements is attached as Appendix "A".

FACTS AND CONCLUSIONS

A. Overview

3. RS and Standard agree that Standard failed to do the following in the Relevant Period:

   a) adopt adequate written trading supervision and compliance policies and procedures as identified by RS in its trade review process, contrary to UMIR 7.1 and UMIR Policy 7.1, Part 3;

   b) maintain sufficient evidence of internal compliance testing, contrary to UMIR Policy 7.1, Part 2; and

c) review its supervision procedures annually and report the findings of such a review to its board of directors, contrary to UMIR Policy 7.1, Part 2.

B. Background

4. Standard is registered as a broker and investment dealer under the Ontario *Securities Act*, R.S.O. 1990, c. S.5, as amended. It is a Participating Organization of the Toronto Stock Exchange and is therefore a Participant under UMIR. Standard operates as an introducing broker, using another institution to handle its back office functions.

5. In the Relevant Period, Standard was a small independent firm with 20 employees. Approximately 60% of Standard's business was full service retail business for high income clients, approximately 15% was institutional trading and approximately 25% was corporate finance. Standard employed four licensed traders, only three of whom were active, and, during most of the Relevant Period, twelve investment advisors.

6. In the Relevant Period, Standard's trade desk handled all of Standard's orders, approximately 20 - 50 per day.

7. As a small firm, Standard governed itself using informal governance structures and practices. Standard had no formal senior management team or executive committee in the Relevant Period. All of Standard's directors were employed by it; they discussed issues as they arose and decided them informally. These discussions and decisions were rarely documented. While Standard's Board of Directors (the "Board") periodically held formal meetings, it did not always document its discussions and resolutions.

C. Standard's failure to address and rectify RS trade desk review findings

8. Each Participant, including Standard, must implement a trade supervision and compliance system, which is appropriate for its business, allowing the Participant and its directors, officers, partners and employees to identify the steps necessary to prevent,

detect, and address a violation, or a possible violation, of a Requirement as defined in UMIR.

9. On November 28, 2003, RS issued Market Integrity Notice 2003-025 (*MIN 2003-025*), "Guidelines on Trading Supervision Obligations". MIN 2003-025 reminded Participants of the requirements under UMIR 7.1 and UMIR Policy 7.1 to have adequate policies and procedures for trading supervision and that a failure to do so could result in enforcement action.

The repeated reports of deficient policies

10. RS reviewed Standard's trade desk policies, procedures, and practices in April 2002, April 2003, and April 2004 (individually and collectively referred to as *TDR*s). RS reported in writing the findings from each TDR to Standard.

11. On 30 April 2002, RS reported to Standard that Standard's trading policies and procedures failed to address the requirements under UMIR 7.1, and that Standard had not adopted the necessary policies and procedures to ensure that Standard complied with UMIR 5.3, the "Client Priority" rule.

12. On 2 June 2003, RS reported to Standard that Standard's trading policies and procedures still needed further development to meet the requirements under UMIR 7.1, and that Standard still had not adopted the necessary policies and procedures to ensure that Standard complied with UMIR 5.3, the "Client Priority" rule. Specifically, but not exhaustively, RS reported that Standard's written policies and procedures did not describe methodologies as to how Standard would conduct the following functions:

a) conduct compliance testing;

b) quantify and summarize compliance testing results;

c) report problems identified from testing results to management;

d) address problems identified; and,

e) ensure proper compliance to claim exemptions under UMIR 5.3, commonly referred to as the “Client Priority” rule.

13. On 19 May 2004, RS reported to Standard that Standard’s trading policies and procedures still needed further development to meet the requirements under UMIR 7.1. For example, but not exhaustively, RS reported that:

a) Standard’s written compliance and supervision procedures were not adequate;

b) in particular, Standard’s procedures regarding orders that establish artificial prices were copied directly from UMIR Policy 7.1, Part 3;

c) Standard’s procedures, such as those regarding off-market trading, did not fully explain the process used to test those trades.

d) Standard’s testing did not cover all of its business.

e) Standard’s procedures for order ticket review and trade marking were incomplete.

f) Standard had not adopted procedures for order handling and to prevent “double printing”.

Standard’s deficient responses

14. Between April 2002 to June 2004, Standard failed to adopt trading policies and procedures that met the minimum requirements under UMIR 7.1 and that were adequate for its business. For example, but not exclusively, the policies and procedures adopted by Standard failed to achieve the following:

a) describe such policies and procedures with sufficient detail, such that a reasonably knowledgable person could understand when a policy or procedure would apply and how someone could comply with the policy and procedure;

b) prescribe compliance testing methods, such that a reasonably knowledgable person could duplicate the testing method.

15. In conclusion, Standard failed to adopt written policies and procedures to be followed by Standard's directors, officers, partners and employees that were adequate, taking into account Standard's business and affairs, to ensure compliance with UMIR and UMIR Policies.

D. Failure to maintain evidence of compliance testing

16. Each Participant, including Standard, must maintain sufficient records to demonstrate that it fulfilled its duties under UMIR 7.1 for at least the previous five years.

17. The 2004 TDR found that Standard could not produce comprehensible evidence that Standard conducted internal testing in May 2003 to December 2003 and that evidence of compliance testing performed in 2004 was incomplete.

18. As part of RS's investigation, RS requested written evidence that Standard complied with its supervision and compliance obligations in the Relevant Period. Standard represented to RS that it provided its complete record of supervision and compliance testing to RS.

19. Based on records provided to the TDRs and the response to RS's requests for documents during the investigation for the Relevant Period, Standard failed to maintain sufficient evidence demonstrating that it fulfilled its trade supervision and compliance duties under UMIR 7.1. The following table summarizes the documents that Standard

provided to RS in the relevant period and the reasons why the documents provided evidence a contravention of UMIR 7.1:

Time Period	Documentation Provided by Standard	Failure of UMIR Standard
April 2002 – May 2003	• Two bundles of indecipherable handwritten worksheets with little, if any, back-up documentation for the period April 2002 through early October 2002 • Handwritten memoranda exchanged between Standard's compliance officer and traders about individual trades in September 2002 • Memoranda from Standard's compliance officer to registered staff about the TSE's audit and new markers introduced by RS in April 2002 • Memoranda from the compliance officer to Standard's Board of Directors concerning issues arising from RS's trade desk reviews and a review of Standard's procedures in April 2002, July 2002 and March 2003	• UMIR Policy 7.1 requires Participants to keep and maintain evidence of compliance testing
May 2003 – December 2003	• Except for monthly summaries of testing conducted in October and December 2003, no summaries, back up documentation, or other documents showing evidence of compliance testing • Monthly summaries of testing conducted for October 2003 and December 2003 submitted to RS in response to an RS's 2003 TDR, neither of which included any supporting documentation	• UMIR Policy 7.1 requires participants to keep and maintain evidence of compliance testing
January 2004 to March 2004	• No evidence of daily testing for trading in issuers on a grey or restricted list • No evidence of monthly testing for artificial pricing • No evidence of quarterly testing for frontrunning and manipulative and deceptive trading	• UMIR Policy 7.1 requires participants to keep and maintain evidence of compliance testing

20. The documents supplied by Standard failed to establish that Standard conducted sufficient testing of its trading activity to ensure compliance with UMIR Policy 7.1, Part 3.

21. In conclusion, by failing to maintain adequate evidence that Standard carried out testing of its trades according to UMIR Policy 7.1, Standard contravened UMIR 7.1, and Policy 7.1, Part 2.

E. Failure to review supervision policy

22. Each Participant, including Standard, must review its trade supervision policies annually and report the results of that review to its board of directors.

23. During the Relevant Period, Standard did not consistently:

a) review its trading supervision policy annually; or,

b) report the results of an annual review of its trade supervision policy to the Board.

24. In conclusion, by failing to review its trade supervision policy annually or report the results of that review to the Board, Standard contravened UMIR 7.1 and Policy 7.1, Part 2.

F. Mitigating Factors

25. During the Relevant Period, Standard's Board of Directors relied on its then CCO to ensure compliance with the requirements of UMIR 7.1 and UMIR Policy 7.1. Standard's Board of Directors was informed by the CCO that he was taking the steps necessary to satisfy the deficiencies raised by RS in the 2002 and 2003 TDRs and the Board believed that RS was satisfied with Standard's response.

26. In August, 2003, Standard learned that the CCO had not adequately addressed a number of regulatory concerns and took steps to have him address those concerns. As a result of the CCO's failure to do so adequately, Standard dismissed him in February, 2004 and replaced him with a new CCO.

27. Standard first learned that its compliance and supervision procedures still did not comply with the requirements of UMIR 7.1 and Policy 7.1 during the course of RS's TDR in April, 2004.

28. Once these deficiencies were brought to its attention, Standard addressed them expeditiously, and its new CCO worked with RS's TDR group to improve Standard's systems. After the 2004 TDR, Standard significantly improved its trading compliance and supervision system.

29. The 2005 TDR reported no material deficiencies with Standard's trade supervision and compliance system.

30. Neither Standard nor its individual employees committed any significant contraventions of UMIR.

31. Standard did not benefit financially from its failure to implement more appropriate compliance systems.

32. There was no harm to any client of Standard, and there is no evidence of harm to any market participant or to the integrity of the marketplace.

33. The factors described in paragraphs 25 to 32 mitigate Standard's full responsibility.

G. Conclusion

34. Nevertheless, because of its inadequate policies and procedures in some areas, and its failure to record and maintain copies of compliance testing in the Relevant Period, Standard posed a risk to market integrity during the Relevant Period.

28 June 2006

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To: Standard Securities Capital Corporation

c/o **Respondent's counsel**
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