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For distribution to relevant parties within your firm

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Discipline

Discipline Penalties imposed on KingsGate Securities Limited - Violation of By-Laws 17.1, 17.2A and 4.7

Person Disciplined The Ontario District Council of the Investment Dealers Association of Canada (the "Association") has imposed discipline penalties on KingsGate Securities Limited, ("KingsGate") at all material times a Member of the Association.

By-laws, Regulations, Policies Violated On June 21, 2004 the Ontario District Council considered, reviewed and accepted, a Settlement Agreement negotiated between KingsGate and Association staff.

Pursuant to the Settlement Agreement, KingsGate admitted that:

- Between July 2, 2003 and August 11, 2003, it failed to maintain its risk adjusted capital at a level greater than zero as calculated in accordance with Association Form 1, and did thereby contravene Association By-law 17.1.
- Between March, 2003 and August 5, 2003, it failed to establish and maintain adequate internal controls in accordance with the internal control policy statements in Policy No. 3, and did thereby contravene Association By-law 17.2A.
- During the period April 16, 2002 to September 9, 2003, it operated four sub-branches without advising the Association in writing of its intention to establish those sub-branches or the designated supervisor for those sub-branches, and did thereby contravene Association By-Law 4.7.

Penalty Assessed The discipline penalty assessed against KingsGate is a fine in the amount of \$40,000.00.

In addition, KingsGate is required to pay costs of the Association in the sum of \$10,000.00.

Capital Deficiencies / Internal Controls

Between July 2 and July 10, 2003, KingsGate made certain cash advances to its parent company in the sum of \$134,121.92 which resulted in KingsGate becoming capital deficient. The capital deficiency was not discovered until IDA Financial Compliance Staff visited the KingsGate's business premises in early August 2003.

On or about July 31, 2003, Association Staff wrote to KingsGate and confirmed that, based on its June 2003 MFR, KingsGate would be placed in discretionary Early Warning Level 1.

Upon discovery of the capital deficiencies, Association Staff required the recalculation of the four weekly RAC calculations for July 2003. Each of the four recalculations demonstrated that KingsGate was capital deficient.

On or about August 11, 2003, after consultation with Association Staff, KingsGate remedied the capital deficiencies. Accordingly, KingsGate was, between July 2 and August 11, 2003 capital deficient and in contravention of By-law 17.1

KingsGate failed to have in place adequate internal controls to identify capital deficiencies and was thus in violation of Association By-law 17.2A, Policy No. 3 and Internal Control Policy 2. In particular, KingsGate had no consistent system of internal controls that would identify the cash advances made to its parent company and the impact of those advances on its level of RAC.

KingsGate cooperated with the Investigation of Association Staff and acted to address the capital deficiencies described above. The capital deficiencies described above did not adversely impact KingsGate's clients or their accounts.

Unregistered Sub-branches

During the 2003 Sales Compliance review by Association Staff, it was discovered that KingsGate had five retail sales personnel operating from four sub-branches.

At all times these sales personnel were registered and supervised out of KingsGate's head office. However, the sub-branches referred to above were not registered with the Association in accordance with By-law No. 4.7.

KingsGate closed the various sub-branches identified above before the commencement of the Investigation of Association Staff.

Kenneth A. Nason
Association Secretary