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Discipline

Discipline Penalties Imposed on MGI Securites Inc. and Crawford Gordon; Violations of Regulation 1300.2

Person Disciplined	A Hearing Panel appointed pursuant to IDA By-law 20 has considered, reviewed and accepted a Settlement Agreement negotiated between Enforcement Staff and MGI Securities Inc. (MGI), at all material times a Member firm, and Crawford Gordon, at all material times an Approved Person (MGI's CEO, President and Ultimate Designated Person).
By-laws, Regulations, Policies Violated	Following a Settlement Approval hearing held on May 10, 2006, in Toronto, Ontario, a Hearing Panel accepted the Settlement Agreement. MGI and Mr. Gordon admitted that, commencing in April 2000, they violated Regulation 1300.2 by failing to establish and maintain procedures and controls to effectively supervise trading by clients who are insiders of public issuers or who are in control positions of public issuers.
Penalty Assessed	The discipline penalties assessed against MGI and Mr. Gordon are:

- MGI will pay a fine in the amount of $250,000;
- Mr. Gordon will pay a fine in the amount of $150,000; and
- Mr. Gordon undertakes not to apply for approval with the IDA for the position of Ultimate Designated Person (UDP), Alternative Designative Person or any other position with compliance supervisory duties.

The Respondents will also pay a portion of the IDA's investigative and prosecution costs in this matter in the amount of $45,000.

Summary of Facts

Regulation 1300.2 and Policy No. 2 require IDA Members to supervise trading in client accounts and to have adequate procedures and policies in place to do so.

In order to effectively supervise trading in client accounts and to carry out its duties as an industry gatekeeper, a Member must have controls in place that identify which clients are insiders or have control positions in public issuers ("control persons").

From April 2000 until at least March 2005, MGI was not able to effectively supervise trading by insiders or control persons because it did not have a complete list, or other compliance tool, that identified which MGI clients were insiders or control persons.

Sales Compliance Reviews

IDA Sales Compliance Staff conducted reviews of MGI's sales compliance procedures, policies and practices in 2000, 2002, 2003 and 2005. Each time, problems were identified relating to the completeness and adequacy of MGI's insider and control person list. These problems led to the commencement of an investigation by IDA Enforcement Staff in February 2004 which also found deficiencies with MGI's list of insiders and control persons.

Compliance Resources

Until December 2004, MGI failed to allocate sufficient, adequately trained, compliance personnel to compile and maintain an insider and control person list in a timely manner. More importantly, the Respondents failed to consider the importance of controls surrounding insider trading which the Hearing Panel considered a serious omission.

The Respondents commenced to rectify the problems in December 2004 by appointing a new UDP and a new Chief Compliance Officer. The Respondents also engaged a consultant to provide professional assistance to review all compliance systems. Additional personnel were also deployed in the compliance area with specific attention to this problem.

In April 2006, at the request of IDA Enforcement Staff, the consultant also conducted a review of MGI's current policies and procedures to ensure adequacy in MGI's monitoring of insiders and control persons. The results of that review were satisfactory to IDA Enforcement Staff.

Sanctions

The Hearing Panel was satisfied that no illegal insider trading resulted from the Respondents' failure to comply with Regulation 1300.2. Therefore, there was no harm to clients or the integrity of the capital markets. However, the Hearing Panel noted that the sanctions and costs proposed in the Settlement Agreement were significant and reflected their concerns about the risk of harm that may be caused by insider trading.

IDA Staff's position was that the total amount of the fine imposed, i.e. $400,000, was appropriate in the circumstances because it was approximately two times the amount of money that MGI had saved by not investing sufficient compliance resources at the appropriate time.

MGI has its head office in Toronto and has four branch offices. Mr. Gordon is 67 years old. Although he continues to be the President of MGI he is not permitted to have any supervisory compliance duties.

Kenneth A. Nason
Association Secretary