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Discipline

Discipline Penalties Imposed on HSBC James Capel Canada Inc. (now HSBC Securities (Canada) Inc.) – Violation of By-laws 17.1 and 17.2

Person Disciplined	The Ontario District Council of the Investment Dealers Association of Canada has imposed a discipline penalty on HSBC James Capel Canada Inc. (now HSBC Securities (Canada) Inc.), a Member of the Association.
By-laws, Regulations, Policies Violated	On July 13, 2000, the Ontario District Council considered, reviewed and accepted a settlement agreement that had been negotiated by Association Enforcement Division staff with HSBC Securities (Canada) Inc.. Pursuant to the settlement agreement, HSBC Securities (Canada) Inc. admitted that during the period between mid-December 1998 through January 31, 1999 HSBC Securities (Canada) Inc. failed to maintain risk-adjusted capital greater than zero and to maintain a proper system of books and records, contrary to By-laws 17.1 and 17.2, respectively.
Penalty Assessed	The discipline penalty assessed against HSBC Securities (Canada) Inc. is a fine in the amount of \$60,000. In addition, HSBC Securities (Canada) Inc. is required to pay \$10,710 toward the Association's costs of investigation of this matter.
Summary of Facts	<p>In July and December 1998 HSBC Securities (Canada) Inc. acquired Moss Lawson & Company Ltd. and Gordon Capital Corporation (GCC), respectively. Due to differences in information systems platforms between HSBC Securities (Canada) Inc. and GCC, an interface system, or bridge, was developed to facilitate the processing of transactions. Notwithstanding testing of the bridge, problems of reconciliation resulted in an accumulation of unreconciled items in HSBC Securities (Canada) Inc. internal control accounts. In January 1999 HSBC Securities (Canada) Inc. notified the Association of the reconciliation problems.</p> <p>Due to the reconciliation problem, on its Monthly Financial Report, HSBC</p>

Securities (Canada) Inc. reported a risk-adjusted capital (RAC) deficiency of CDN\$21.289 million for the month ended December 31, 1998 and, for the period ending January 31, 1999, reported a RAC deficiency of CDN\$82.340 million. On February 4, 1999 an injection of previously committed US\$100 million by HSBC Securities (Canada) Inc.'s shareholder rectified the firm's RAC deficiency.

Responses to questions on the Joint Regulatory and Financial Questionnaire and Report for the period ending December 31, 1998 indicated that HSBC Securities (Canada) Inc. did not maintain adequate books and records as prescribed by the joint regulatory body for the relevant time period because it did not accurately reflect the status of certain accounts for internal reconciliation purposes.

The technology and reconciliation issues were resolved. No client funds were put at risk and HSBC Securities (Canada) Inc. allocated numerous resources, recruited experienced staff and put new procedures in place to correct the problems.

Suzanne Barrett
Association Secretary