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**BULLETIN # 3283**

May 11, 2004

## Discipline

### Discipline Penalties Imposed on Edward Ing— Violations of Regulation 1300.2 and By-law 29.1

Person Disciplined	The Ontario District Council (“District Council”) of the Investment Dealers Association of Canada has imposed discipline penalties on Edward Ing, at all material times the Ultimate Designated Person (“UDP”) and Chief Financial Officer (“CFO”) of St. James Securities Inc. (“SJS”), a former Member of the Association.
By-laws, Regulations, Policies Violated	<p>Following a disciplinary hearing held on May 3, 2004, the District Council found that Mr. Ing violated Association Regulation 1300.2 by failing to adequately supervise the trading of John Illidge.</p> <p>The District Council also found that Mr. Ing violated Association By-law 29.1 by failing to discharge his duties as CFO of SJS in a prudent and reasonable manner.</p>
Penalty Assessed	<p>The discipline penalties assessed against Mr. Ing are as follows:</p> <ul style="list-style-type: none"><li>• A permanent prohibition on approval as a partner, director or officer of any Association Member and a permanent prohibition on approval in any supervisory capacity with the Association;</li><li>• A fine in the amount of \$175,000; and</li><li>• Payment of the Association’s costs in the amount of \$75,000.</li></ul>
Summary of Facts	Mr. Ing was a Director, CFO and Registered Representative at SJS from the inception of SJS in May 1996 until its demise in November 1999. He was the Alternate Designated Person (“ADP”) from 1996 to January 1999. During this time he also reviewed the trading at SJS for any compliance concerns. Mr. Ing was the UDP from January 1999 until November 1999. He was also a shareholder of St. James Holdings Inc. (“SJH”), the parent company of SJS. Mr. Ing ceased to be registered with the Association in April of this year.

Mr. Illidge was a Director, Chairman, ADP and Registered Representative of SJS at various times from 1996 to 1999. Mr. Illidge was also a shareholder of SJH. He ceased to be registered with the Association in January 2000 and has been disciplined by the Association on two occasions. See Association Bulletin Nos. 2390 and 3165.

**FAILURE TO SUPERVISE MR. ILLIDGE:**

As UDP, Mr. Ing was responsible for supervision at SJS. Had Mr. Ing conducted the required daily and monthly reviews of Mr. Illidge's trading, the activity described below would have been detected. Mr. Ing failed to properly supervise Mr. Illidge's trading in that there were numerous red flags which should have been discovered by Mr. Ing and there were numerous instances where Mr. Ing should have made inquiries regarding Mr. Illidge's trading.

**FICTITIOUS CLIENTS SAINTS TRUST AND PROVIDENT UNITED:**

**Saints Trust:**

Saints Trust ("ST") was an estate trust. The trust was wound up on or about June 1998. Although Mr. Illidge knew that the trust had been terminated he failed to close its accounts and continued to trade in ST's accounts from June 1998 until June 1999, effectively using ST's accounts to carry out his personal trading.

Trading in ST's accounts was carried out without adequate margin or funds. Large debit positions accumulated in the accounts, the largest being \$464,832.32.

In a 1999 sales compliance review, Association sales compliance staff had questioned Mr. Ing about a Government of Canada bond trade in ST's account on April 29, 1999. In that transaction 5,000,000 Government of Canada bonds were purchased at \$135.43 and were sold the same day at \$131.43, resulting in a loss of approximately \$200,000. The sell price was not supported by the market and was unreasonably low. In addition, the trade tickets for the buy and sell transactions were time stamped at the same time and the same two SJS accounts were involved in both transactions.

Client mail for ST's accounts was also directed to various addresses from September 1997 to June 1999, including two of Mr. Illidge's personal addresses. Account statements also indicated "address unknown" for lengthy periods of time in 1999.

**Provident United:**

In February 1998 Mr. Illidge created a fictitious client known as Provident United Investments ("Provident"). No corporate documentation was ever found for this client. The alleged client contact, RW, when located by the Association, advised that he had never opened an account at SJS in any capacity.

Mr. Illidge effected numerous trades in the Provident accounts, often without adequate funds. Large debit positions accumulated, the largest being over one million dollars. Mr. Ing, as CFO, approved numerous write offs of monies owing to SJS by the ST and Provident accounts.

Provident client mail was also directed to Mr. Illidge's residences or account statements were marked as 'address unknown' during much of 1999.

**INVENTORY TRANSACTIONS:**

From October 1998 to July 1999, Mr. Illidge directed several transactions in SJS inventory accounts ("inventory"), to the undue detriment of SJS. The prices paid for the securities were not supported by the market. The two securities involved in all of the transactions were either shares of Charrington Business Consultants Inc. ("Charrington") or MYO Diagnostics Ltd. ("MYO"). At all material times, the market for these shares was illiquid and very large positions of both of these securities were held in SJS's inventory and client accounts. Mr. Illidge was the Registered Representative for all of the accounts involved in these transactions.

**SJC account:**

Mr. Ing knew that St. James Capital Corporation ("SJC") was owned by Mr. Illidge. SJC was a client of SJS.

On December 10, 1998, SJC purchased 600,000 shares of MYO from inventory at 9¢ per share. On December 18, 1998, SJC sold 300,000 shares of MYO back to inventory at \$2.39 per share. On December 29, 1998, SJC sold the remaining 300,000 shares of MYO back to inventory at \$2.39 per share, thereby making a profit of \$1,380,000 with a corresponding detriment to inventory.

**Southampton accounts:**

Mr. Ing knew or ought to have known that Southampton Capital Ltd. ("Southampton") was a holding company owned by PM, who had a close personal relationship with Mr. Illidge, and who was also a shareholder of SJH.

Although Southampton opened accounts at SJS in November 1998 and began trading at that time, it was not incorporated until March 1999.

From November 1998 to November 1999, Southampton's accounts were permitted to trade without adequate margin or funds. Large debit positions accumulated in these accounts, the largest being over 1 million dollars.

On January 19, 1999, Southampton purchased 500,000 MYO shares from inventory at \$2.40 per share. On February 10, 1999, Southampton sold the 500,000 MYO shares back to inventory at \$3.40 per share, thereby making a profit of \$500,000, with a corresponding detriment to inventory. Southampton's account did not have available funds or equity to make this purchase and no commission was charged by SJS for these transactions.

On February 25, 1999, Southampton purchased 570,000 shares of Charrington from inventory at \$1.18 per share. On March 11, 1999, Southampton sold the 570,000 shares back to inventory at \$1.60 per share, thereby making a profit of \$239,400, with a corresponding detriment to inventory.

**BTC and BTF accounts:**

Mr. Ing knew or ought to have known that Beinn Tighe Farms Ltd. (“BTF”) and Beinn Tighe Capital Ltd. (“BTC”) were owned or controlled by Mr. Illidge. The BTC and BTF accounts were designated as accounts for which mail should be held at SJS.

From January 1998 to April 1999, BTC and BTF’s accounts were permitted to trade without adequate margin or funds. Large debit positions accumulated in these accounts, the largest being over 3 million dollars.

On October 20, 1998, inventory sold 568,000 shares of Charrington to BTC at \$.442 cents per share. Two days later, BTC sold the 568,000 shares of Charrington back to inventory at 96¢ per share, thereby making a profit of \$295,360 with a corresponding detriment to inventory.

On October 19, 1998, BTF purchased 572,000 shares of Charrington from inventory at 96¢ per share. Mr. Illidge then moved this position to another BTF account. On November 2, 1998, BTF sold the 572,000 shares of Charrington back to inventory at \$1.10 per share, thereby making a profit of \$80,080, with a corresponding detriment to inventory.

On February 24, 1999, BTC purchased 570,000 shares of Charrington from inventory at \$1.18 per share. On March 8, 1999, BTC sold the 570,000 shares of Charrington back to inventory at \$1.60 per share, thereby making a profit of \$239,400 with a corresponding detriment to inventory.

**Provident:**

On July 21, 1999, Provident purchased 275,000 shares of MYO from inventory at \$2.19 per share. On the same day, Provident sold the 275,000 shares of MYO back to inventory at \$3.41 per share, thereby making a profit of \$335,500, with a corresponding detriment to inventory.

**DEBIT KITING:**

While at SJS Mr. Illidge conducted many transactions in the shares of MYO and Charrington in various client accounts without any economic benefit for those accounts.

Between January 1999 and November 1999, accounts for 29 individuals and/or corporate entities traded 44 times in the shares of MYO and/or Charrington. All of these transactions involved internal crosses between accounts for which Mr. Illidge was the Registered Representative. The purpose of these transactions was to move shares of MYO and Charrington between accounts in order to avoid margin requirements or payment for the shares.

**FREE RIDING:**

From February 1997 to November 1999, 28 accounts for which Mr. Illidge was responsible, were opened in the names of 26 different individuals or corporate entities and traded for prolonged periods of time without adequate funds or margin. Trading occurred in 12 of these accounts without any funds ever having been deposited in the accounts.

**CAPITAL DEFICIENCIES:**

A series of capital deficiencies occurred at SJS on July 29, 1999, August 31, 1999, October 31, 1999 and November 15, 1999.

Mr. Ing failed to detect or report these deficiencies to the Association.

**July 29, 1999 capital deficiency:**

In 1998 and 1999, the Association's Sales Compliance staff identified a number of unusual transactions involving trading of MYO shares in client accounts. The Association's Financial Compliance staff then reviewed these transactions to determine their impact on SJS's risk adjusted capital.

Association Financial Compliance staff determined that on July 29, 1999, SJS was long 675,000 shares of MYO, resulting in a capital deficiency of \$492,000. The deficiency was corrected on July 30, 1999. Mr. Ing did not appropriately and knowledgeably respond to Association staff inquiries regarding this deficiency.

**August – November 1999 Capital Deficiencies:**

**SLM Software Control Block shares:**

After November 1998, various accounts were opened at SJS which SJS advised were cross guaranteed accounts (the "M group") although no guarantee documents were ever provided by Mr. Ing, despite Association requests.

Association Financial Compliance staff determined that the SLM Software shares held in the M group accounts were control block shares and that no loan value should have been extended. Mr. Ing knew or ought to have known that the SLM Software shares were a control block.

Association Financial Compliance staff reviewed the M group accounts and determined that SJS was capital deficient as of August 31, 1999, in the amount of \$1,505,343. SJS was also capital deficient as of October 31, 1999 in the amount of \$199,039 and on November 15, 1999 in the amount of \$451,359.

Kenneth A. Nason  
*Association Secretary*