INVESTMENT DEALERS ASSOCIATION OF CANADA

bulletin

ASSOCIATION CANADIENNE DES COURTIERS EN VALEURS MOBILIÈRES

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For distribution to relevant parties within your firm

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Discipline

Disciplinary Penalties Imposed on IPC Securities Corporation; Violations of By-law 29.27, Policy No. 2, and By-law 17.1

Member Disciplined

A Hearing Panel of the Investment Dealers Association of Canada ("the Association") appointed pursuant to IDA By-law 20 has imposed discipline penalties on IPC Securities Corporation, a Member of the IDA.

By-laws, Regulations, Policies Violated

Following a disciplinary hearing held on July 7th, 2005, a Hearing Panel considered, reviewed, and accepted a Settlement Agreement negotiated between IPC Securities Corporation and Staff of the Enforcement Department of the Association. Pursuant to the Settlement Agreement, IPC Securities Corporation admitted that:

a) Between December 31st, 2001 and May 31st 2002 inclusive, it failed to maintain adequate records of supervisory activity in accordance with Association requirements concerning head office account supervision, and thereby contravened Association By-law 29.27 and Association Policy No. 2, Part IV.

b) Between June 2003 and January 30th, 2004, it failed to establish, maintain, and/or enforce written policies and procedures to supervise principal trading done on its behalf, contrary to Association By-law 29.27 (a) (i) and (vi).

c) Between January 30th, 2004 and February 13th, 2004, it failed to maintain its risk adjusted capital at a level greater than zero calculated in accordance with Association Form 1, contrary to Association By-law 17.1

Penalty Assessed

The penalties assessed against IPC Securities Corporation were:

- For the contravention set in paragraph a) above, a payment to the Association of a fine in the amount of $25,000;

- For the contravention set out in paragraph b) above, payment to the Association of a fine in the amount of $50,000; and

- For the contravention set out in paragraph c) above, payment to the Association of a fine in the amount of $25,000.

The fines imposed were inclusive of all costs of the investigation and prosecution of this matter.

Summary of Facts

IPC Securities Corporation ("IPC") became a member of the IDA on December 31st, 2001. It is a Type III introducing broker engaged mainly in the retail brokerage business.

Association Enforcement Staff conducted a review of IPC's head office supervision in December 2003. During the course of that review, some evidence was found of head office account supervision by way of handwritten notations on internal daily commission detail reports. However, between December 31st 2001 and May 31st 2002, IPC's head office account supervision was deficient in that:

- No evidence of any daily reviews was found for January and February 2002.

- There were only 6 instances where trades were circled and notations were made with respect to certain transactions on the commission detail reports.

- There was no evidence that IPC registrants were actually questioned or whether the responses were received or if there was resolution of any issues raised.

- Lastly, there was no evidence found that any monthly reviews were conducted by IPC during the subject time.

Beginning in June 2003, IPC began principal trading in its inventory account. At the time, IPC had no written policy or procedures in place to govern principal trading. Eventually, in December 2003, IPC's Board of Directors approved a capital limit of $75,000 for principal trading to support related inventory positions. However, no other written policies or procedures to regulate or supervise principal trading were adopted or implemented by the firm. Responsibility for IPC's principal trading was assigned to its then Chief Operating Officer, John Alexander.

During January 2004, a number of trades were made through IPC's inventory account in excess of the capital limits for principal trading that had been established just a month before by IPC's Board of Directors. In particular, significant trades were made in 4 securities that traded on the NASDAQ. In the middle of January 2004, IPC's credit manager spoke with Mr. Alexander regarding the oversized positions in the inventory account. At that time, Mr. Alexander advised that there were problems with some of the trades and that the positions would be adjusted. However, there was no follow up. On January 30, 2004, the NASDAQ securities in IPC's inventory account were sold to its error account. The sales were made at prices that did not match the

opening price, the closing price, or the high or low for those securities as recorded by NASDAQ on January 30, 2004. Had the positions in the inventory account for the NASDAQ securities been sold on the open market on January 30, 2004, the loss to the account would have been in the range of approximately $35,000 to $67,000 USD. In fact, IPC suffered a loss in the amount of $63, 697 as a result of the principal trading executed under Mr. Alexander's supervision in January 2004.

Mr. Alexander admitted that he was assigned the regulatory responsibility for monitoring the inventory and error accounts on a daily and monthly basis, but failed to fulfil those responsibilities. However, IPC had no specific procedures in place for follow up and review to ensure that Mr. Alexander was not circumventing controls with respect to principal trading, with the exception of a program developed by IPC's CEO to specifically review inventory accounts.

As a result of the principal trading in the inventory account and the sale of the securities to IPC's error account, the error account had a debit balance and open positions as of January 31st, 2004. Once the improper sale of securities from the inventory account to the error account was discovered, the transactions were reversed. Additional margin was then required for the inventory account. The additional margin reduced IPC's risk adjusted capital (RAC) by the same amount. The reduction in IPC's RAC triggered a concentration charge for other securities held by the firm. In the end, IPC was capital deficient in the amount of $208,000 as of January 31st, 2004.

The capital deficiency was discovered by IPC on February 10th, 2004 and was promptly rectified and reported to the IDA. The capital deficiency had no impact on retail, institutional, or other client accounts.

Upon giving its approval to the Settlement Agreement entered into by IPC and Association Staff, the Hearing Panel commented that "A Member firm has complete and total responsibility for the behaviour of its employees. It is not an excuse if one of those employees happens to be the chief operating officer. It may be a mitigating factor. …[T]he penalties that were chosen reflected those various mitigating factors which the Panel read and has understood. But these penalties are the minimum…that…could have been accepted." The Hearing Panel went on to emphasize the importance of there being an ongoing understanding of the weight of the responsibility of a Member of the IDA to fully and completely conform with IDA By-laws, Regulations, and Policies.

The Reasons for Decision of the Hearing Panel will be posted on the IDA website.

Kenneth A. Nason
Association Secretary