INVESTMENT DEALERS ASSOCIATION OF CANADA

bulletin

ASSOCIATION CANADIENNE DES COURTIERS EN VALEURS MOBILIÈRES

Contact:
Ken Kelertas
Enforcement Counsel
(416) 943-5781, kkelertas@ida.ca

For distribution to relevant parties within your firm
BULLETIN # 3453
August 17, 2005

Discipline

Disciplinary Penalties Imposed on John Norman Alexander; Violations of By-law 29.1

Person 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 John Norman Alexander, at the material time a Vice President, Director, Chief Operating Officer and Registered Representative with IPC Securities Corporation ("IPC"), a Member of the IDA.

By-laws, Regulations, Policies Violated

On August 3rd, 2005, a Hearing Panel considered, reviewed, and accepted a Settlement Agreement negotiated between Mr. Alexander and Staff of the Enforcement Department of the Association. Pursuant to the Settlement Agreement, Mr. Alexander admitted that on or about January 30th, 2004, he failed to fully and properly supervise IPC's inventory and error accounts, and thereby engaged in business practice which is unbecoming or detrimental to the public interest, contrary to Association By-law 29.1.

Penalty Assessed

The discipline penalties assessed against Mr. Alexander were:

- Payment to the Association of a fine in the amount of $40,000;
- A permanent prohibition from approval to act in a supervisory capacity with any Member of the Association;
- A suspension from approval to act in any registered capacity with any member of the Association for a period of one (1) year;
- Strict supervision for a period of one (1) year upon any subsequent registration approval with any member of the Association; and
- Payment of the costs of the investigation and prosecution of this matter in the amount of $10,000.

Summary of Facts

Mr. Alexander joined IPC as a consultant in July 2002. Prior to that, Mr. Alexander had been employed for over 30 years in a registered capacity with a number of other Member firms. From December 19th, 2003 to February 18th, 2004, Mr. Alexander was registered with the Association as a Vice President, Director, Chief Operating Officer, and Registered Representative employed by IPC.

Beginning in June 2003, IPC began proprietary trading in its inventory accounts. Trading in the inventory accounts was executed under the direction of Mr. Alexander. At the time, IPC had no written policies or procedures in place to govern principal trading. Eventually, on December 2nd, 2003, IPC's Board of Directors approved a capital limit of $75,000 for principal trading to support related inventory positions, but IPC did not implement any written policies or procedures to regulate or supervise principal trading. Responsibility for supervising IPC's principal trading was assigned to Mr. Alexander. However, IPC had no specific procedures in place for follow-up and review to ensure that Mr. Alexander was not circumventing any possible controls with respect to principal trading.

In 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.

On January 15th, 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 30th, 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 recorded by NASDAQ for those securities on January 30th, 2004. Had the positions in the inventory account for these securities been sold on the open market on January 30th, 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 responsibility for monitoring the inventory and error accounts on a daily and monthly basis and for supervising trades made through those accounts. However, he admitted that he did not actively monitor the accounts during the month of January 2004.

As a result of the principal trading in the IPC inventory account and the sale of securities to the firm's error account, IPC's error account had a debit balance and open positions as of January 31st, 2004. Upon discovery of the improper sale of securities form the inventory account to the error account, the transactions were reversed by IPC. Additional margin was then required for the inventory account. The additional margin required then 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.

Mr. Alexander has acknowledged that he knew, or ought to have known, that a large open position in the firm's inventory account would require additional margin, and hence could have an adverse impact on IPC's RAC calculation.

Mr. Alexander voluntarily resigned from all registered positions at the firm shortly after the capital deficiency was discovered. However, he has continued to work for IPC's parent company as a consultant in a non-registered capacity.

Kenneth A. Nason
Association Secretary