

# INVESTMENT DEALERS ASSOCIATION

## IN THE MATTER OF:

THE BY-LAWS OF THE INVESTMENT DEALERS  
ASSOCIATION OF CANADA

AND

JOHN NORMAN ALEXANDER

## SETTLEMENT AGREEMENT

### I. INTRODUCTION

1. The Enforcement Department Staff (“Staff”) of the Investment Dealers Association of Canada (“the Association”) has conducted an investigation (“the Investigation”) into the conduct of John Norman Alexander (“the Respondent”).
2. The Investigation discloses matters for which the Respondent may be disciplined by a hearing panel appointed pursuant to Association By-law 20 Part 10 (“the Hearing Panel”).

### II. JOINT SETTLEMENT RECOMMENDATION

3. Staff and the Respondent consent and agree to the settlement of these matters by way of this settlement agreement (“the Settlement Agreement”) in accordance with By-laws 20.35 to 20.40, inclusive and Rule 15 of the Association Rules of Practice and Procedure.
4. The Settlement Agreement is subject to acceptance by the Hearing Panel.
5. The Settlement Agreement shall become effective and binding upon the Respondent and Staff as of the date of its acceptance by the Hearing Panel.
6. The Settlement Agreement will be presented to the Hearing Panel at a hearing (“the Settlement Hearing”) for approval. Following the conclusion of the Settlement Hearing, the Hearing Panel may either accept or reject the Settlement Agreement.
7. If the Hearing Panel accepts the Settlement Agreement, the Respondent waives his/her right under the Association By-laws and any applicable legislation to a disciplinary hearing, review or appeal.

8. If the Hearing Panel rejects the Settlement Agreement, Staff and the Respondent may enter into another settlement agreement; or Staff may proceed to a disciplinary hearing in relation to the matters disclosed in the Investigation.
9. The Settlement Agreement will become available to the public upon its acceptance by the Hearing Panel.
10. Staff and the Respondent agree that if the Hearing Panel accepts the Settlement Agreement, they, or anyone on their behalf, will not make any public statements inconsistent with the Settlement Agreement.
11. Staff and the Respondent jointly recommend that the Hearing Panel accept the Settlement Agreement.

### **III. STATEMENT OF FACTS**

#### **(i) Acknowledgment**

12. Staff and the Respondent agree with the facts set out in this Section III and acknowledge that the terms of the settlement contained in this Settlement Agreement are based upon those specific facts.

#### **(ii) Factual Background**

13. The Respondent joined IPC Securities Corporation (“IPC”) in July 2002 as a consultant. From April 1972 to the time he joined IPC, Alexander was employed in a registered capacity with a number of other member firms. From December 19, 2003 to February 18, 2004, Alexander was registered with the Association as a Vice President, Director, Chief Operating Officer and Registered Representative with IPC. On February 18, 2004, Alexander resigned from his positions at IPC. He has not been registered with the Association in any capacity since that time.
14. Beginning in June 2003, IPC began proprietary trading in its inventory account. Trading in the inventory account was executed under the direction of the Respondent. At the time, IPC had no written policies or procedures in place to govern principal trading.
15. On December 2, 2003, the IPC Board of Directors approved a capital limit of \$75,000 for principal trading to support related inventory positions. However, no written policies or procedures to regulate principal trading were adopted or implemented by the firm. Responsibility for supervising IPC’s principal trading was assigned to the Respondent.
16. During January 2004, a number of trades were made through IPC’s inventory account in excess of the \$75,000 limit for principal trading. In particular, significant trades were made in four securities that traded on the NASDAQ:

**CMGI Inc.**

<b>Date</b>	<b>Type of Transaction</b>	<b>Quantity</b>	<b>Price (US \$)</b>	<b>Net Amount (US \$)</b>
Jan. 16, 2004	Sell	(10,000)	\$2.700	\$26,998.73
Jan. 16, 2004	Buy	10,000	\$2.690	-\$26,900.00
Jan. 20, 2004	Buy	10,000	\$2.710	-\$27,100.00
Jan. 20, 2004	Sell	(10,000)	\$2.720	\$27,198.72
Jan. 20, 2004	Sell	(10,000)	\$2.727	\$27,269.02
Jan. 21, 2004	Buy	10,000	\$2.870	-\$28,700.00
Jan. 21, 2004	Sell	(10,000)	\$2.920	\$29,198.63
Jan. 26, 2004	Buy	40,000	\$2.900	-\$116,000.00
Jan. 26, 2004	Sell	(30,000)	\$2.933	\$87,997.36
Jan. 27, 2004	Buy	20,000	\$3.000	-\$60,000.00
Jan. 27, 2004	Sell	(25,100)	\$2.993	\$75,112.07
Jan. 27, 2004	Sell	(10,000)	\$3.020	\$30,198.58
Jan. 27, 2004	Sell	(20,000)	\$2.988	\$59,759.79
Jan. 28, 2004	Buy	10,000	\$2.940	-\$29,400.00

**8X8 Inc.**

<b>Date</b>	<b>Type of Transaction</b>	<b>Quantity</b>	<b>PRICE (US \$)</b>	<b>Net Amount (US \$)</b>
Jan. 5, 2004	Buy	20,000	\$4.635	-\$92,700.00
Jan. 5, 2004	Sell	(20,000)	\$4.675	\$93,495.62
Jan. 6, 2004	Sell	(20,000)	\$4.995	\$99,895.31
Jan. 6, 2004	Buy	20,000	\$4.940	-\$98,800.00
Jan. 6, 2004	Sell	(20,000)	\$4.996	\$99,913.41
Jan. 6, 2004	CXL Buy	(20,000)	\$4.940	\$98,800.00
Jan. 6, 2004	Buy	20,000	\$4.935	\$98,703.00
Jan. 7, 2004	Buy	20,000	\$5.345	-\$106,899.00

Jan. 9, 2004	Buy	30,000	\$5.047	-\$151,400.00
Jan. 9, 2004	Sell	(9,900)	\$5.230	\$51,774.57
Jan. 12, 2004	Sell	(2,000)	\$5,170	\$10,339.51
Jan. 12, 2004	Buy	10,000	\$5.070	-\$50,700.00
Jan. 13, 2004	Buy	9,400	\$5.588	-\$52,525.20
Jan. 13, 2004	Buy	600	\$5.588	-\$3,352.80
Jan. 13, 2004	Sell	(10,000)	\$5.680	\$56,797.34
Jan. 13, 2004	Sell	(30,000)	\$5.220	\$156,599.14
Jan. 13, 2004	Sell	(18,100)	\$5.296	\$95,855.09
Jan. 14, 2004	Buy	10,000	\$5.560	-\$55,600.00
Jan. 15, 2004	Buy	20,000	\$5.210	-\$104,193.00
Jan. 15, 2004	Sell	(10,000)	\$5.180	\$51,797.57
Jan. 15, 2004	CXL Buy	(20,000)	\$5.210	\$104,193.00
Jan. 15, 2004	Buy	20,000	\$5.209	-\$104,173.00
Jan. 16, 2004	Buy	10,000	\$5.230	-\$52,300.00
Jan. 16, 2004	Sell	(20,000)	\$5.206	\$104,122.12
Jan. 20, 2004	Sell	(10,000)	\$5.500	\$54,997.42
Jan. 21, 2004	Buy	10,000	\$5.140	-\$51,400.00

**Knight Trading Group Inc.**

<b>Date</b>	<b>Type of Transaction</b>	<b>Quantity</b>	<b>PRICE (US \$)</b>	<b>Net Amount (US \$)</b>
Jan. 15, 2004	Buy	10,000	\$15.040	-\$150,400.00
Jan. 15, 2004	Sell	(1,900)	\$15.100	\$28,688.65
Jan. 16, 2004	Sell	(8,100)	\$15.100	\$122,304.27
Jan. 16, 2004	Buy	100	\$15.210	-\$1,521.00
Jan. 20, 2004	Sell	(100)	\$16.120	\$1,611.92
Jan. 22, 2004	Buy	5,000	\$15.200	-\$76,000.00
Jan. 23, 2004	Buy	10,000	\$14.747	-\$147,470.00
Jan. 26, 2004	Buy	5,000	\$14.750	-\$73,750.00

Jan. 28, 2004	Sell	(3,600)	\$13.780	\$48,614.48
Jan. 28, 2004	Sell	(3,500)	\$13.781	\$48,230.73
Jan. 28, 2004	Buy	20,000	\$14.000	-\$280,000.00
Jan. 29, 2004	Buy	30,000	\$13.602	-\$408,070.00
Jan. 29, 2004	Sell	(30,000)	\$13.533	\$405,980.99

**Internap Network Services (Delaware)**

Date	Type of Transaction	Quantity	Price (US \$)	Net Amount (US \$)
Jan. 6, 2004	Buy	10,000	\$2.630	-\$26,300.00
Jan. 6, 2004	Sell	(10,000)	\$2.650	\$26,498.75
Jan. 9, 2004	Buy	10,000	\$2.600	-\$25,996.00
Jan. 12, 2004	Sell	(10,000)	\$2.650	\$26,498.75
Jan. 13, 2004	Buy	20,000	\$2.600	-\$52,000.00
Jan. 15, 2004	Buy	10,000	\$2.420	-\$24,744.50
Jan. 15, 2004	Buy	10,000	\$2.420	-\$24,200.00
Jan. 15, 2004	CXL Buy	(10,000)	\$2.420	\$24,200.00
Jan. 26, 2004	Buy	40,000	\$2.365	-\$94,600.00
Jan. 26, 2004	Sell	(30,000)	\$2.383	\$71,496.65
Jan. 27, 2004	Buy	20,000	\$2.370	-\$47,399.95

17. On January 15, 2004, IPC's Credit Manager spoke with the Respondent regarding the oversize positions in the inventory account. Alexander advised her that there were "problems" with some of the trades. Alexander stated these positions would be adjusted.
18. On January 30, 2004 the following securities were sold from the firm's inventory account to its error account:

	Quantity	Price (US\$)	Net Amount (US\$)
CGMI Inc.	10,000	\$2.84	\$29,400
8X8 Inc.	10,000	\$5.14	\$51,400

Internap Network Services (Delaware)	60,000	\$2.44	\$146,400
Knight Trading Group Inc	33,100	\$14.62	<u>\$483,922</u>
		<b>Total:</b>	<b><u>\$711,122</u></b>

19. According to NASDAQ records, the prices (in US\$) on January 30, 2004 for the securities in question were as follows:

	Opening Price	High	Low	Closing Price
CMGI	\$2.72	\$2.90	\$2.61	\$2.77
8X8 Inc	\$4.04	\$4.10	\$3.91	\$3.97
Internap Network Services(Delaware)	\$2.20	\$2.36	\$2.14	\$2.29
Knight Trading Group Inc.	\$13.87	\$14.03	\$13.60	\$13.80

20. Had the positions in the inventory account in these four securities been sold on the open market on January 30, 2004, the loss to the account would have been in the range of \$35,095.70 (US\$) to \$67,328.70 (US\$).
21. The Respondent acknowledges that as Chief Operating Officer of IPC, he was assigned the responsibility for monitoring the inventory and error accounts on a daily and monthly basis, and supervising the trades made through those accounts. The Respondent admits that he was not actively monitoring the accounts during the month of January 2004.
22. As a result of the principal trading in the IPC inventory account and the sale of securities to the firm's error account, the error account had a debit balance and open positions as of January 31, 2004. Upon discovery of the improper sale of securities from the inventory account to the error account, the transactions were reversed by IPC. The additional margin then required for the inventory account amounted to \$380,000. The additional required margin reduced IPC's risk adjusted capital (RAC) by the same amount, and contributed to IPC becoming capital deficient
23. As Chief Operating Officer, the Respondent 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.

#### IV. CONTRAVENTIONS

24. The Respondent admits to the following contraventions of Association By-laws, Regulations, Rulings or Policies:

On or about January 30, 2004, John Norman Alexander, at the material time a Vice President, Director, Chief Operating Officer, and Registered Representative, employed by IPC Securities Corporation, a Member of the Association, failed to fully and properly supervise the Member firm'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.

## **VI. TERMS OF SETTLEMENT**

25. The Respondent agrees to the following terms of settlement:
- a. payment to the Association of a fine in the amount of \$40,000;
  - b. a permanent prohibition from approval to act in a supervisory capacity with any Member of the Association;
  - c. a suspension from approval to act in any registered capacity with any Member of the Association for a period of one (1) year;
  - d. strict supervision for a period of one (1) year upon any subsequent registration approval with any Member of the Association; and
  - e. payment of the costs of the investigation and prosecution of this matter in the amount of \$10,000;
26. Unless otherwise stated, any monetary penalties and costs imposed upon the Respondent are payable immediately upon the effective date of the Settlement Agreement.
27. Unless otherwise stated, any suspensions, bars, expulsions, restrictions or other terms of the Settlement Agreement shall commence on the effective date of the Settlement Agreement.

**AGREED TO** by the Respondent at the City of Toronto, in the Province of Ontario, this        day of  
, 2005.

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**WITNESS**

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**JOHN NORMAN ALEXANDER**

**AGREED TO** by Staff at the City of Toronto, in the Province of Ontario, this        day of  
2005.

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**WITNESS**

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**KENNETH J. KELERTAS**  
Enforcement Counsel on behalf of  
Staff of the Investment Dealers  
Association of Canada

**ACCEPTED** this      day of                      , 2005, by the following Hearing Panel:

Per: \_\_\_\_\_  
Panel Chair

Per: \_\_\_\_\_  
Panel Member

Per: \_\_\_\_\_  
Panel Member