

INVESTMENT DEALERS ASSOCIATION

IN THE MATTER OF:

THE BY-LAWS OF THE INVESTMENT DEALERS
ASSOCIATION OF CANADA

AND

IPC SECURITIES CORPORATION

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 IPC Securities Corporation (“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) Facts

13. At all material times IPC Securities Corporation (“the Respondent”) was a Member of the Association, and was a Type III Introducing Broker engaged mainly in the retail brokerage business. The Respondent became a Member of the IDA on December 31st, 2001.

A. Documentation of Head Office Supervision – 2002

14. In December 2003, Staff attended at the Head Office of the Respondent to perform a supervision review. The goal of the review was to determine the extent of the supervision conducted by Head Office in 2002 and 2003.
15. Association By-law 29.27, requires that each Member shall establish and maintain a system to supervise the activities of their registrants, employees and agents that is reasonably designed to achieve compliance with the By-laws, Regulations and Policies of the Associations and all other laws, regulations and policies applicable to the Member's securities, and commodity futures business. The By-law requires, at a minimum, that the supervisory system shall provide for, among other things:
 - (i) The establishment, maintenance and enforcement of written policies and procedures acceptable to the Association regarding the conduct of the types of business in which it engages and the supervision of each partner, director, officer, registered representative, employee and agent of the Member that are reasonably designed to achieve compliance with the applicable laws, rules, regulations and policies;

- (ii) Procedures reasonably designed to ensure that each partner, director, officer, registered representative, employee and agent of the Member understands his or her responsibilities under the written policies and procedures in (i);
 - (iii) Procedures to ensure that the written policies and procedures of the Member are amended as appropriate within a reasonable time after changes in applicable laws, regulations, rules and policies and that such changes are communicated to all relevant personnel;
 - (iv) Sufficient personnel and other resources to fully and properly enforce the written policies and procedures in (i);
 - (v) The designation of supervisory personnel with the qualifications and authority to carry out the supervisory responsibility assigned to them. Each Member shall maintain an internal record of the names of all persons who are designated as having supervisory responsibility and the dates for which such designation is or was in effect. Such record shall be preserved by the Member for seven years, and on-site for the first year;
 - (vi) Procedures for follow-up and review to ensure that supervisory personnel are properly executing their supervisory functions. Where the supervision is conducted and supervisory records are maintained at a branch office, the follow-up and review procedures shall include periodic on-site reviews of branch office supervision and record keeping as necessary depending on the types of business and supervision conducted at the branch office;
 - (vii) The maintenance of adequate records of supervisory activity, including on-site reviews of branch offices as described in (vi), compliance issues identified and the resolution of those issues.
16. Association on Policy 2 requires, among other things, that all Member firms perform daily and monthly sales compliance reviews. Daily reviews must be conducted of stock trades with a value over \$5,000 and a price under \$5.00 per share; stock trades with value over \$20,000 and a price at or over \$5.00 per share; bond trades over \$100,000 value per trade; non-client trading; client accounts of producing branch managers; all client accounts not reviewed by a branch manager, trade cancellations; trading in restricted accounts; trading in suspense accounts, account number changes; late payment; and outstanding margin calls.
17. Furthermore, monthly Head Office level reviews must be conducted on client trading accounts which generate more than \$3,000 in gross commission (\$2,500 before February 12, 2002) and non-client accounts that generate more than \$1,500 in gross commission (\$1,000 before February 12, 2002) during the month and were not reviewed at the branch level. Furthermore, concentration of securities must be reviewed.
18. Evidence of all daily and monthly reviews must be maintained, as well as evidence of all inquiries, responses and actions arising out of the reviews.

19. During the course of Staff's review of the Respondent's Head Office supervision, some evidence was found of Head Office account supervision from December 31st, 2001 to May 31st, 2002 ("the Subject Time Period") by way of handwritten notations on daily Commission Detail Reports (CDRs) indicating the telephone numbers of individuals spoken to concerning the trades in question.
20. Nevertheless, the Respondent's Head Office account supervision during the Subject Time Period was deficient, in that:
 - a) no CDRs were found for the months of January and February 2002;
 - b) between March 2002 and May 2002, no CDRs were found for 11 days (March 5, 6, 8, April 22, 26, and May 13, 16, 17, 24, 28, 30);
 - c) during the Subject Time Period, there were only six (6) instances where a trade was circled and a notation made on a CDR, the report. However, there was no evidence found as to whether registered representatives were actually questioned and/or whether responses were received and resolution of the issue raised actually occurred; and
 - d) no evidence was found of monthly reviews.
21. The Association had conducted an earlier sales compliance and audit of the Respondent's operations in the latter part of 2002 ("the 2002 Review"), and among other things, reviewed the Respondent's daily and monthly supervisory records for the months of August, September, and October 2002. No sales compliance review of the Subject Time Period was conducted at that time.
22. While it was found during the 2002 Review that the Respondent did conduct daily supervisory reviews between August 1, 2002 and October 31, 2002, no monthly supervisory review could be found for August 2002, and the October 2002 review was not completed within the stipulated time frame. These findings were discussed with the Respondent in January 2003, and were formally presented to the Respondent in April 2003. The Respondent agreed that it would maintain a clear audit trail of its supervisory reviews moving forward.
23. From November 2002 moving forward, the IDA acknowledges that the Respondent's daily and monthly supervisory reviews of retail accounts pursuant to Association Policy 2 were documented as required. Accordingly, there was no concern about on-going retail supervisory review at the time of the IDA's December, 2003 review.

B. Supervision of Principal Trading

24. Beginning in June 2003, the Respondent began principal trading in its inventory account. At the time, the Respondent had no written policies or procedures in place to govern principal trading.

25. Trading in the inventory account was executed under the direction of John Alexander, who joined the Respondent firm as a non-registered consultant in July 2002. 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.
26. On December 2, 2003, the Respondent'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 the Respondent's principal trading was assigned to Alexander.
27. During January 2004, a number of trades were made through the Respondent's inventory account in excess of the capital limits for principal trading. In particular, significant trades were made in four securities that traded on the NASDAQ:

CMGI Inc.

Date	Type of Transaction	Quantity	Price (US\$)	Net Amount (US\$)
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.

Date	Type of Transaction	Quantity	Price (US\$)	Net Amount (US\$)
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.

Date	Type of Transaction	Quantity	Price (US\$)	Net Amount (US\$)
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

28. On or about January 15, 2004, the Respondent's Credit Manager spoke with Alexander 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. There was no follow-up.
29. Alexander has admitted that he was assigned the responsibility for monitoring the inventory and error accounts on a daily and monthly basis.
30. While the Respondent had various internal controls in place to monitor daily, weekly, and monthly credit issues (including margin balances), the Respondent had no specific procedures in place for follow-up and review to ensure that Alexander was not circumventing controls with respect to principal trading, with the exception of a program developed by the CEO specifically to review inventory trading ("Monthly Inventory Summary Report").
31. On January 30, 2004 the following securities were sold from the Respondent's inventory account to its error account:

	Quantity	Price (US\$)	Net Amount (US\$)
CMGI Inc.	10,000	\$2.84	\$29,400
8X8 Inc.	10,000	\$5.14	\$51,400
Interap Network Services (Delaware)	60,000	\$2.44	\$146,400
Knight Trading Group Inc.	33,100	\$14.62	<u>\$483,922</u>
		Total:	<u>\$711,122</u>

32. 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 Inc.	\$2.72	\$2.90	\$2.61	\$2.77
8X8 Inc.	\$4.04	\$4.10	\$3.91	\$3.97
Interap Network Services (Delaware)	\$2.20	\$2.36	\$2.14	\$2.29
Knight Trading Group Inc.	\$13.87	\$14.03	\$13.60	\$13.80

33. 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\$).

C. Capital Deficiency

34. As a result of the principal trading in the inventory account and the sale of securities to the firm's error account, the Respondent's 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 the Respondent. The additional margin then required for the inventory account amounted to \$380,000. The additional margin reduced the Respondent's risk adjusted capital (RAC) by the same amount.
35. The reduction in the Respondent's RAC triggered a concentration charge for other securities held by the Member firm. This concentration charge was calculated to be \$567,000. Consequently, with RAC calculated to be \$359,000, the Respondent experienced a RAC deficiency of \$208,000 as of January 31, 2004.
36. The capital deficiency was discovered by the Respondent on February 10, 2004, was promptly rectified on February 13, 2004, and reported by the Respondent to the IDA immediately upon discovery .
37. The capital deficiency had no impact on retail or institutional client accounts. However, the Respondent suffered a loss in the amount of \$62,697 as a result of the principal trading executed under Alexander's supervision in January 2004.
38. The Respondent discovered, reported to the IDA and acted promptly to rectify the capital deficiency. The Respondent has cooperated fully with the Association's investigation, and has subsequently implemented more stringent internal controls including measures to ensure cross-supervision of any changes, errors, cancellations and corrections of retail, institutional, and proprietary trades.

IV. CONTRAVENTIONS

39. The Respondent admits to the following contraventions of Association By-laws, Regulations, Rulings or Policies:
 - a) Between December 31, 2001 and May 31st, 2002 inclusive, IPC Securities Corporation, a Member of the Association, 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 30, 2004, IPC Securities Corporation, a Member of the Association, 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 30, 2004 and February 13, 2004, IPC Securities Corporation, a Member of the Association, 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.

V. TERMS OF SETTLEMENT

40. The Respondent agrees to the following terms of settlement:

- a) For the contravention set out in paragraph 39(a) above, the payment to the Association of a fine in the amount of \$25,000;
- b) For the contravention set out in paragraph 39(b) above, the payment to the Association of a fine in the amount of \$50,000; and
- c) For the contravention set out in paragraph 39(c) above, the payment to the Association of a fine in the amount of \$25,000.

41. Unless otherwise stated, any monetary penalties imposed upon the Respondent are payable immediately upon the effective date of the Settlement Agreement.

42. 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 June, 2005.

WITNESS

IPC SECURITIES CORPORATION

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

WITNESS

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