

Re IPC Securities

IN THE MATTER OF:

**The Rules of the Investment Industry Regulatory Organization of
Canada**

and

IPC Securities Corporation

2016 IIROC 32

Investment Industry Regulatory Organization of Canada
Hearing Panel (Ontario District)

Heard: August 29, 2016

Decision: August 29, 2016

Written Reasons: September 8, 2016

Hearing Panel:

Martin L. Friedland, C.C., Q.C. (Chair), Shaine Pollock and Ron Smith

Appearances:

Sally Kwon, Enforcement Counsel, IIROC

Kenneth A. Dekker for the Respondent

REASONS FOR DECISION

INTRODUCTION

¶ 1 Staff of the Investment Industry Regulatory Organization of Canada (“IIROC”) and the Respondent, IPC Securities Corporation (“IPC” or “the Respondent”), entered into the attached Settlement Agreement, dated July 29, 2016.

¶ 2 The Settlement Agreement was presented to the Hearing Panel for acceptance on August 29, 2016. The Respondent and Staff of IIROC jointly recommended that the Hearing Panel accept the Settlement Agreement.

¶ 3 After hearing counsel for IIROC and the Respondent and considering the material filed, the Hearing Panel issued an order accepting the Settlement Agreement. These are our reasons for making that order.

SETTLEMENT AGREEMENT

¶ 4 The Respondent is a Dealer Member of IIROC with its head office located in Mississauga, Ontario, and with branches located across Canada. It had been a member of the Investment Dealers Association since 2001 and became a Dealer Member of IIROC on June 1, 2008.

¶ 5 In the Settlement Agreement, the Respondent admits to the following contravention of IIROC Dealer Member Rules, Guidelines, Regulations or Policies:

Between January and June 2014 the Respondent failed to conduct strict supervision of a Registered Representative pursuant to an acknowledgment and consent provided to IIROC contrary to IIROC Dealer Member Rules 29.1 and 2500.

¶ 6 Staff and the Respondent agreed to a Settlement in which the Respondent would pay a fine of \$65,000 and costs to IIROC in the sum of \$5,000.

¶ 7 The person that was subject to strict supervision was Wasseem Dirani (“Mr. Dirani”). Steps had been taken by IPC to hire Mr. Dirani in May 2013 to work as a Registered Representative at the firm.

¶ 8 As a result of an ongoing investigation by IIROC into Mr. Dirani’s conduct while employed at a previous Dealer Member firm, terms and conditions were imposed on his registration by IIROC as a Registered Representative, including that he would be subject to strict supervision by IPC.

¶ 9 In February 2014, while employed at IPC, Mr Dirani entered into a settlement agreement with IIROC in relation to his earlier conduct at his previous firm. One aspect of the penalty agreed to in the settlement was an order of strict supervision for a 12 month period. See *Re Dirani* 2014 IIROC 09.

¶ 10 From January to June 2014, IPC’s Chief Compliance Officer signed off on monthly reports sent to IIROC certifying compliance with all required elements of strict supervision.

¶ 11 In July 2014, it came to IIROC’s attention that while IPC conducted supervision of Mr. Dirani’s activities generally and had met most of the requirements of strict supervision, certain aspects of the supervision did not at all times meet all of the required elements of strict supervision.

¶ 12 In February 2015, Mr. Dirani left IPC.

STRICT SUPERVISION

¶ 13 In July 2013, IPC expressly acknowledged and agreed to comply with all of the terms and conditions on the re-activation of Mr. Dirani’s registration.

¶ 14 The attached Settlement Agreement sets out the eight standard requirements of IIROC’s strict supervision. They will not be repeated here. Two additional requirements were added. They were that:

- a) All documents signed by Dirani’s clients would be reviewed by the Branch Manager and compared to the signature on the clients’ photo ID. Evidence of such review would also be retained by the Branch Manager; and
- b) For all documents signed by one of Dirani’s clients, a Branch Manager would send a copy of the document back to the client with a request for them to inform IPC of any discrepancies.

¶ 15 In July 2014, as a result of IIROC’s ongoing audit and review of the strict supervision of Mr. Dirani by IPC, IIROC identified issues with compliance with certain elements of strict supervision and therefore extended the requirements of strict supervision indefinitely. These were still in place in February 2015 when Mr. Dirani left IPC.

¶ 16 In July 2014, IIROC Business Conduct Compliance department conducted a focused audit of IPC to confirm that the firm was conducting the required strict supervision of Mr. Dirani. It found that the required strict supervision had not been adequately complied with.

¶ 17 These failures are set out in the Settlement Agreement and in Appendix A to the Settlement Agreement and will not be set out in detail here, except to note in the following two paragraphs failure to supervise adequately in the two additional areas of strict supervision that had been added to the standard eight areas by IIROC. These are set out here as two examples out of 5 failures to supervise identified in Appendix A.

¶ 18 The first example relates to the requirement that all documents signed by Mr. Dirani’s clients would be reviewed by the Branch Manager and compared to the signature on the client’s photo ID and that evidence of such review would be retained by the Branch Manager. The Settlement Agreement acknowledges:

“While branch copies of the New Client Application Forms for all clients were maintained at the branch level, the assigned supervisor failed to maintain specific evidence that the following steps were taken:

review client signatures
compare them to client's photo ID
retain evidence of such review.”

¶ 19 And with respect to the requirement that for all documents signed by one of Mr. Dirani's clients, a Branch Manager would be required to send a copy of the document back to the client with a request for them to inform IPC of any discrepancies, the Settlement Agreement acknowledges: “The assigned supervisor at times failed to mail copies of documents to all clients in a timely manner, even though the CCO [Chief Compliance Officer] signed monthly strict supervision reports indicating that IPC was completing this task.”

¶ 20 The Settlement Agreement states in paragraphs 33 and 34: “Accordingly, IPC failed to conduct adequate strict supervision of Dirani pursuant to an acknowledgment and consent provided to IIROC...Further, in light of the imposition of additional elements of strict supervision specific to Dirani, IPC failed to meet the required strict supervisory standard....”

¶ 21 The Respondent also acknowledges in the Settlement Agreement that there had been two prior settlements with IIROC, one in 2010 and another in 2005. These were unrelated to the present case.

STANDARD FOR REVIEWING A SETTLEMENT AGREEMENT

¶ 22 A Hearing Panel can either accept or reject a Settlement Agreement. It cannot modify it. The standard for reviewing a Settlement Agreement was well-stated in a Pacific District hearing, *Re Johnson* (2012 IIROC 19), where the panel stated:

“The test applicable to a decision whether to accept or reject a settlement is well-known. Simply put, a panel should accept such an agreement unless it considers the penalty provided for clearly to fall outside a reasonable range of appropriateness.”

¶ 23 There are many similar statements. See, for example, *Re Taggart* (2013 IIROC 24); *Re Scotia Capital* (2013 IIROC 38); *Re Jiwa and Hoffar* (2012 IIROC 9); *Re Rotstein and Zackheim* (2012 IIROC 27); *Re Portfolio Strategies Securities Inc.* (2012 IIROC 36), and *Re Ast* (2012 IIROC 38), all stemming from *Re Milewski* ([1999] I.D.A.C.D. no. 17), where the panel stated:

“A District Council considering a settlement agreement will tend not to alter a penalty that it considers to be within a reasonable range, taking into account the settlement process and the fact that the parties have agreed. It will not reject a settlement unless it views the penalty as clearly falling outside a reasonable range of appropriateness. Put another way, the District Council will reflect the public interest benefits of the settlement process in its consideration of specific settlements.”

¶ 24 A very recent June 2016 IIROC Panel, *Re Donnelly* (2016 IIROC 23), rightly observed in accepting a Settlement Agreement (paragraphs 7 and 8):

“It is usually in the public interest that matters be settled where possible rather than be determined through contested hearings. The reasons for this are often that an earlier determination of a dispute is better than a later determination. Settlements are usually less expensive than contested litigation, and there is less congestion in the dispute settling system when matters are taken out of the system through settlements. Finally where both parties agree, the result is often more palatable to the parties and society than in a contested hearing where the winner takes all.

For these reasons, a panel considering the acceptance of a settlement agreement will try to reach a determination of acceptance. It will recognize that settlements are often hotly debated with much compromise and give-and-take between the parties in order to reach an acceptable position agreeable to both parties. Furthermore, the panel will recognize that it is not privy to all the facts and the motivations and considerations that each of the parties have in coming to a solution of the dispute that is agreeable to them.”

¶ 25 The Panel in *Re Donnelly* went on to say in paragraph 29: “Where both parties to a settlement agreement are represented by counsel, and have the means to undergo a contested hearing, but have reached a settlement, it is unlikely that a panel would ever conclude that the settlement was unfair and not reasonable.” In the present case both sides were represented by counsel and there was extensive negotiations, which counsel for the Respondent said went on for “weeks, if not months.”

WHY THE PANEL ACCEPTED THE SETTLEMENT AGREEMENT

¶ 26 We did not view the penalty as “clearly falling outside a reasonable range of appropriateness.” Indeed, we concluded that the penalty was appropriate in the circumstances of this case. This was not a total failure by IPC to conduct strict supervision, but rather a case where there had been extensive supervision, although more should have been done by the Respondent to fully comply with the terms of the strict supervision imposed on Mr. Dirani’s registration with IPC.

¶ 27 We have also taken into account the importance of the settlement process, the give-and-take of Settlement Hearings and the fact that in the present case both sides were represented by counsel.

¶ 28 Further, there was no evidence presented that any clients were harmed by the lack of adequate supervision.

¶ 29 The IIROC Sanction Guidelines state: “The primary purpose of IIROC disciplinary proceedings is to maintain high standards of conduct in the securities industry and to protect market integrity.” The penalty of \$65,000 is a significant sum and will send a clear message to supervisors and Members that they have to take supervision very seriously and that strict supervision will be strictly enforced by IIROC. The establishment and maintenance of an effective supervision system is one of the main keys to effective securities regulation.

¶ 30 For the above reasons, we accepted the Settlement Agreement.

Dated at Toronto this 8th day of September, 2016.

Martin L. Friedland, C.C., Q.C., Chair

Shaine Pollock

Ron Smith

SETTLEMENT AGREEMENT

I. INTRODUCTION

1. IIROC Enforcement Staff (“Staff”) and the Respondent, IPC Securities Corporation (the “Respondent” or “IPC”), consent and agree to the settlement of this matter by way of this agreement (the “Settlement Agreement”).
2. The Enforcement Department of IIROC has conducted an investigation (“the Investigation”) into the conduct of IPC Securities Corporation.
3. The Investigation discloses matters for which the Respondent may be disciplined by a hearing panel appointed pursuant to IIROC Transitional Rule No.1, Schedule C.1, Part C (the “Hearing Panel”).

II. JOINT SETTLEMENT RECOMMENDATION

4. Staff and the Respondent jointly recommend that the Hearing Panel accept this Settlement Agreement.
5. The Respondent admits to the following contravention of IIROC Dealer Member Rules, Guidelines, Regulations or Policies:

Between January and June 2014 the Respondent failed to conduct strict supervision of a Registered

Representative pursuant to an acknowledgment and consent provided to IIROC contrary to IIROC Dealer Member Rules 29.1 and 2500.

6. Staff and the Respondent agrees to the following terms of settlement:

a) A fine of \$65,000.

7. The Respondent agrees to pay costs to IIROC in the sum of \$5,000.

III. STATEMENT OF FACTS

(i) Acknowledgment

8. 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

A. Overview

9. In May 2013 IPC undertook to hire Wasseem Dirani (“Dirani”) to work in the capacity of a Registered Representative at the firm.

10. As a result of an ongoing investigation by IIROC into Dirani’s conduct while employed at a previous Dealer Member firm, terms and conditions were imposed on his registration including that he would be subject to strict supervision.

11. IPC provided an acknowledgment and consent to conduct strict supervision in accordance with the terms and conditions of Dirani’s registration.

12. In February 2014 while employed at IPC Dirani entered into a settlement agreement with IIROC in relation to his earlier conduct at the previous firm. One aspect of the penalty agreed to in the settlement was an order of strict supervision for a 12 month period. This order required IPC to continue to conduct strict supervision of his activities until at least July 2014.

13. However, in July 2014 it came to IIROC’s attention that while IPC did conduct supervision of Dirani’s activities generally, and had met most of the requirements of strict supervision, certain aspects of the supervision did not at all times meet all of the required elements of strict supervision.

14. In February 2015 Dirani resigned from IPC.

B. Registration History

15. The Respondent is a Dealer Member of IIROC with branches located across Canada. Its head office is located in Mississauga, Ontario. Dirani at all times worked out of the IPC head office location.

16. The Respondent became a Dealer Member of the Investment Dealers Association in 2001 and became a Dealer Member of IIROC on June 1, 2008.

C. Requirement of Strict Supervision when IPC Hires Dirani

17. Prior to joining IPC in July 2013 Dirani had been registered with another Dealer Member firm, Edward Jones (“EJ”). In March 2013 Dirani was dismissed for cause by EJ.

18. In May 2013 IPC took steps to hire Dirani and made a submission to the IIROC Registrations Department requesting re-activation of Dirani’s registration.

19. As a result of the ongoing investigation into his conduct while employed at EJ, IIROC imposed terms and conditions on Dirani’s registration with IPC. One of the terms and conditions was the requirement of strict supervision.

20. In July 2013 IPC expressly acknowledged and agreed to comply with, all of the terms and conditions on

the re-activation of Dirani's registration.

21. The terms and conditions of the agreement consisted of the eight traditional elements of strict supervision and two additional elements, as detailed below.
22. IPC agreed to comply, and certify its compliance in writing, with the standard requirements of IIROC strict supervision, as well two additional terms, as follows:
 - i. All of Dirani's orders, both buy and sell, would be initialed by an assigned supervisor or a senior officer before entry;
 - ii. All of Dirani's client accounts would be reviewed on a daily and monthly basis based on the standards established by the Minimum Industry Standards for Account Supervision;
 - iii. A review of trading activity in Dirani's own accounts would be conducted on a daily basis;
 - iv. No transactions would be made in any of Dirani's new client accounts until full and correct documentation was in place;
 - v. All documents signed by Dirani's clients would be reviewed by the Branch Manager and compared to the signature on the client's photo ID. Evidence of such review would also be retained by the Branch Manager;
 - vi. For all documents signed by one of Dirani's clients, a Branch Manager would send a copy of the document back to the client with a request for them to inform IPC of any discrepancies.
 - vii. Any Dirani client complaints received would be reported to the Registration Department of IIROC;
 - viii. Any Dirani client account generating in excess of \$1,500 per month in commissions would be reviewed;
 - ix. There would be no handling by Dirani of any of his clients' securities and no payment by Dirani or issuance of cheques by Dirani to his clients without management approval;
 - x. Any transfer of securities between Dirani client accounts would be authorized by the client and reviewed and approved by an assigned supervisor or a senior officer of IPC.

D. Strict Supervision of Dirani While at IPC

I. Strict Supervision Generally

23. During the period January to June 2014 IPC's Chief Compliance Officer ("CCO") signed off on monthly reports sent to IIROC certifying compliance with all 10 elements of strict supervision.

II. 2014 Discipline Decision re Dirani

24. On February 10, 2014, while employed at IPC, Dirani entered into a settlement agreement with IIROC in relation to his conduct while employed at his prior dealer, EJ.
25. Pursuant to the settlement with IIROC Dirani agreed to terms that included continued strict supervision of Dirani for a period of 12 months, and a fine of \$40,000.
26. The requirements of strict supervision in relation to Dirani were therefore to continue from the original start date of July 2013 until July 2014 in order to encompass the 12 month period set out in the settlement.
27. However in July 2014 as a result of IIROC's ongoing audit and review of the strict supervision of Dirani by IPC, IIROC identified issues with compliance with certain elements of strict supervision and therefore extended the requirements of strict supervision indefinitely; and they were still in place in

February 2015 when Dirani left IPC.

III. Supervision Not in Accordance with All Elements of Strict Supervision

28. The July 2014, IIROC Business Conduct Compliance department's ("BCC") focused audit of IPC included testing to confirm that the firm was conducting the required strict supervision of Dirani.
29. The BCC examination found that required strict supervision had not been adequately complied with. Further BCC found that while many supervisory queries had been initiated, these queries had been made at the Tier II level rather than at the Tier I level as required.
30. The office configuration at IPC was such that the Tier I and Tier II supervisors worked in close proximity and were able to consult with one another regarding their supervision of Dirani, who was in the same office.
31. As detailed in Appendix A to this Settlement Agreement, an IIROC investigation found that, while IPC had complied with many of the elements of strict supervision, in certain instances it had not adequately complied with all of the elements of strict supervision including those specific to Dirani.
32. In other instances, it was found that some elements of strict supervision had not been completed within a timeframe acceptable to IIROC.

E. Supervisory Failures

33. Accordingly, IPC failed to conduct adequate strict supervision of Dirani pursuant to an acknowledgment and consent provided to IIROC.
34. Further, in light of the imposition of additional elements of strict supervision specific to Dirani, IPC failed to meet the required strict supervisory standard, including the terms as set out above.
35. IPC acknowledges two prior settlements with IIROC, in 2010 and 2005, but that both involved issues unrelated to the within matters.

IV. TERMS OF SETTLEMENT

36. This settlement is agreed upon in accordance with IIROC Dealer Member Rules 20.35 to 20.40, inclusive and Rule 15 of the Dealer Member Rules of Practice and Procedure.
37. The Settlement Agreement is subject to acceptance by the Hearing Panel.
38. The Settlement Agreement shall become effective and binding upon the Respondent and Staff as of the date of its acceptance by the Hearing Panel.
39. 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.
40. If the Hearing Panel accepts the Settlement Agreement, the Respondent waives his/her/its right under IIROC rules and any applicable legislation to a disciplinary hearing, review or appeal.
41. 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.
42. The Settlement Agreement will become available to the public upon its acceptance by the Hearing Panel.
43. 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.
44. Unless otherwise stated, any monetary penalties and costs imposed upon the Respondent are payable

immediately upon the effective date of the Settlement Agreement.

45. 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 Mississauga in the Province of Ontario , this 26th day of July , 2016.

“Witness” _____

Witness

“IPC Securities Corporation” _____

IPC Securities Corporation

Per:

AGREED TO by Staff at the City of Toronto in the Province of Ontario , this 29th day of July , 2016.

“Witness” _____

Witness

“Natalija Popovic” _____

Natalija Popovic

Enforcement Counsel on behalf of Staff of the
Investment Industry Regulatory Organization of
Canada

ACCEPTED at the City of Toronto in the Province of Ontario , this 29th day of August , 2016 , by the following Hearing Panel:

Per: “Martin Friedland”

Panel Chair

Per: “Ron Smith”

Panel Member

Per: “Shaine Pollock”

Panel Member

Appendix A

Settlement Agreement re IPC Securities Corporation

Elements of Strict Supervision	Failures identified by IIROC re Elements of Strict Supervision
i. All of Dirani's orders, both buy and sell, would be initialed by [an assigned supervisor] or a senior officer before entry.	While an assigned supervisor reviewed and approved all orders that Dirani submitted for pre-approval before entry, IPC did not conduct a full suitability review of the trades at that time but relied on post-trade reviews for supervision purposes; further IPC did not ensure that Dirani submitted his own personal trades prior to entry. IPC also failed to ensure cross-referencing of the trades executed by Dirani to those he had submitted for pre-approval, to ensure that all trades that had been executed had been properly pre-approved.

Elements of Strict Supervision	Failures identified by IIROC re Elements of Strict Supervision
ii. All of Dirani's client accounts would be reviewed on a daily and monthly basis based on the standards established for the Minimum Industry Standards for Account Supervision.	While an assigned supervisor reviewed Dirani's client accounts on a daily and monthly basis, she failed to adequately query the suitability of certain trades, including for example, trades in which, as found by IIROC staff, clients incurred fees that may not have been beneficial to the clients.
v. All documents signed by Mr. Dirani's clients would be reviewed by the Branch Manager and compared to the signature on the client's photo ID. Evidence of such review would also be retained by the Branch Manager.	While branch copies of the New Client Application Forms for all clients were maintained at the branch level, the assigned supervisor failed to maintain specific evidence that the following steps were taken: <ul style="list-style-type: none"> • review client signatures • compare them to client's photo ID • retain evidence of such review
vi. For all documents signed by one of Mr. Dirani's clients, a Branch Manager would send a copy of the document back to the client with a request for them to inform IPC of any discrepancies.	The assigned supervisor at times failed to mail copies of documents to all clients in a timely manner, even though the CCO signed monthly strict supervision reports indicating that IPC was completing this task.
viii. Any Dirani client account generating in excess of \$1,500 per month in commissions would be reviewed.	While the assigned supervisor reviewed the applicable accounts, she failed to question instances where trades ought to have triggered a query. When queries were made Dirani's responses did not always address the query; however the assigned supervisor accepted Dirani's response, and approved the trades

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