



Ontario  
Securities  
Commission

Commission des  
valeurs mobilières  
de l'Ontario

22nd Floor  
20 Queen Street West  
Toronto ON M5H 3S8

22e étage  
20, rue Queen ouest  
Toronto ON M5H 3S8

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Citation: IPC Securities Corporation (Re), 2018 ONSEC 29

Date: 2018-06-07

File No. 2018-32

**IN THE MATTER OF  
IPC SECURITIES CORPORATION and  
IPC INVESTMENT CORPORATION**

**ORAL REASONS FOR APPROVAL OF A SETTLEMENT  
(Sections 127 and 127.1 of the *Securities Act*, RSO 1990, c S.5)**

**Hearing:** June 7, 2018

**Decision:** June 7, 2018

**Panel:** AnneMarie Ryan  
Frances Kordyback  
Commissioner and Chair of the Panel  
Commissioner

**Appearances:** Michelle Vaillancourt  
Erin Hoult  
For Staff of the Commission  
For IPC Securities Corporation and  
IPC Investment Corporation

## ORAL REASONS FOR APPROVAL OF A SETTLEMENT

*The following reasons have been prepared for publication in the Ontario Securities Commission Bulletin, based on the reasons delivered orally at the hearing, and as edited and approved by the Panel, to provide a public record.*

- [1] Staff of the Commission has made allegations against IPC Securities Corporation and IPC Investment Corporation, referred to collectively as the “**IPC Dealers**”. Staff’s allegations relate to matters that were reported by the IPC Dealers to their respective self-regulatory organizations in March 2015.
- [2] Staff and the IPC Dealers have entered into a settlement agreement, in which the IPC Dealers neither admit nor deny the truth of Staff’s allegations. The parties submit jointly that it is in the public interest for us to approve this settlement. We agree and we reach that conclusion for the following reasons.
- [3] Staff alleges that certain IPC Dealers’ clients paid excess fees, because both firms failed to establish, maintain and apply procedures to establish sufficient controls and supervision. Staff also alleges that these excess fees were not detected or corrected by the IPC Dealers in a timely manner.
- [4] Staff alleges that the excess fees fell into three categories.
  - a. First, some clients had fee-based accounts containing various products in respect of which the IPC Dealers received trailer fees and/or negotiable advisory fees, in addition to the account fee that the client was already paying.
  - b. Second, some clients had fee-based accounts where the fee was incorrectly calculated, because certain assets that paid trailer fees were included in the calculation when they should not have been included.
  - c. Third, some clients who had invested in a particular series of a fund were not advised that they qualified for a different series of the same fund which had a lower Management Expense Ratio, or “**MER**”, than the series in which they had invested.
- [5] Had Staff’s allegations been proven at a contested hearing, the inadequacies referred to would have constituted a breach of section 11.1 of National Instrument 31-103 – *Registration Requirements, Exemptions and Ongoing Registrant Obligations*. That section requires registered firms, such as the IPC Dealers, to establish, maintain and apply policies and procedures that establish a sufficient system of controls and supervision.
- [6] While the terms of the settlement have been agreed to by the parties, we must decide whether the agreement should be approved. In making that decision, we recognize that the agreement is the product of negotiation between Staff and the IPC Dealers, all ably represented by counsel. The Commission respects the negotiation process and accords significant deference to the resolution reached by the parties. Our role is to determine whether the negotiated result falls within a range of reasonable outcomes, and whether it is in the public interest to order the agreed-upon terms. In particular, we must be satisfied that it is in the public interest to approve this “no-contest” settlement.

- [7] It is important to our decision, in that regard, that after the IPC Dealers first discovered some of the alleged inadequacies, they promptly self-reported those inadequacies to their respective self-regulatory organizations, and soon afterwards began discussions with Commission Staff. Those discussions led to further reviews, and to the discovery of additional inadequacies.
- [8] It is also noted that, once the inadequacies were identified, the IPC Dealers did begin to address the underlying causes of the alleged inadequacies promptly. In particular, they addressed the alleged MER-differential inadequacy, which represented approximately two-thirds of the affected accounts, by the fall of 2016. Additional inadequacies which affected approximately 26% of the affected accounts were addressed in late 2016 and early 2017. The issues affecting the remaining 6% were addressed more recently.
- [9] Throughout the process, the IPC Dealers provided prompt, detailed and candid co-operation to Staff. Further, there is no allegation or evidence of dishonest conduct on the part of the IPC Dealers.
- [10] The IPC Dealers will be accountable for paying compensation totalling approximately \$11 million to the affected clients, on the basis set out in the settlement agreement, subject to oversight by Commission Staff. The IPC Dealers have also committed to take corrective action, including implementing enhanced procedures, controls, and monitoring systems designed to prevent a recurrence of the alleged inadequacies. These revised procedures will be subject to review and approval by Staff.
- [11] Finally, the IPC Dealers have made a voluntary payment of \$460,000 to the Commission for allocation or use by the Commission under subsection 3.4(2) of the *Securities Act*, and an additional voluntary payment of \$30,000 to reimburse the Commission for costs.
- [12] As with all settlements, this settlement resolves this matter in a timely and efficient way that saves the substantial costs and delay that would be incurred as a result of a contested hearing. The affected clients and others benefit from a timely resolution of this matter.
- [13] No-contest settlements arise less frequently. It is difficult to secure the Commission's approval of a settlement in which the respondents do not admit the truth of Staff's allegations. However, in this matter, we have taken into account the IPC Dealers' self-identification, prompt self-reporting, measures to adopt new policies and controls, payment of compensation to affected clients, significant additional payments, and prompt, detailed and candid co-operation with Staff. We have considered these actions with reference to the factors identified in the *Revised Credit for Co-operation Program*, sections 16 and 17 of OSC Staff Notice 15-702, and in our view, it is appropriate to approve a no-contest settlement in this case.
- [14] We recognize that compliance inadequacies do occur from time to time. When such inadequacies are identified, it is critical that registrants respond in a responsible manner as the IPC Dealers have done. The *Credit for Co-operation Program* was designed for cases such as this, and the IPC Dealers have earned the benefit of the credit called for by that program.
- [15] This settlement should make it clear that registered firms must have in place robust and effective compliance systems, a principal purpose of which is to

provide reasonable assurance that investors are protected and that they are treated fairly.

- [16] For all of the above reasons, we approve the settlement agreement as requested and we conclude that it is in the public interest to issue an order substantially in the form of Schedule 'A' to that agreement.

Dated at Toronto this 7th day of June, 2018.

"AnneMarie Ryan"

AnneMarie Ryan

"Frances Kordyback"

Frances Kordyback