IN THE MATTER OF THE SECURITIES ACT,
R.S.O. 1990, c. S.5, as amended

- AND -

IN THE MATTER OF STEPHEN DUTHIE

AMENDED STATEMENT OF ALLEGATIONS OF STAFF OF THE ONTARIO SECURITIES COMMISSION

Staff of the Ontario Securities Commission ("Staff") make the following allegations:

PHOENIX RESEARCH AND TRADING CORPORATION

1. Phoenix Research and Trading Corporation ("Phoenix Canada") is a company incorporated pursuant to the laws of Ontario. During the material time, Phoenix Canada was registered with the Ontario Securities Commission (the "Commission") as an investment counsel and portfolio manager pursuant to the *Securities Act*, R.S.O. 1990, c. S.5 (the "Act"). It was also registered pursuant to the *Commodity Futures Act* as an adviser in the category of commodity trading manager.

2. Phoenix Canada was a small company of approximately 14 employees. Mark Kassirer was Phoenix Canada's Chair. Ronald Mock ("Mock") was the CEO and President. From July 1997 to October 1999, (John) Blair Taylor ("Taylor") was Phoenix Canada's Director of Operations and Finance. In November 1999, Taylor was appointed the CFO.

3. Mock was registered with the Commission as an investment counsel and portfolio manager pursuant to the Act. He also was registered under the *Commodity Futures Act* with Phoenix Canada as an advising officer. Mock was the company's registered supervisory procedures officer.

4. The respondent Stephen Duthie ("Duthie") joined Phoenix Canada in 1995. He became a fixed income trader in or about the summer of 1997. Duthie has never been registered with the Commission in any capacity.

THE PHOENIX GROUP

5. The Phoenix Group was a hedge fund management group. The Group was structured as a master/feeder fund arrangement. Unitholders invested in the Phoenix Fixed Income Arbitrage Fund Limited, the Phoenix Fund Limited, the Phoenix Equity Arbitrage Fund Limited and the Phoenix Alternative Strategies Fund Limited (collectively, the “Feeder Funds”). In turn, the Feeder Funds (and other investors) purchased units in the “master” funds.

6. The Phoenix Fixed Income Arbitrage Limited Partnership (“PFIA LP”) was one of the Group’s “master” funds. The Phoenix Hedge Fund Limited Partnership, a TSE-listed hedge fund (the “TSE Phoenix Fund”), also held units of PFIA LP.

7. Since at least early 1998, and pursuant to an arrangement with Phoenix Research and Trading (Bermuda) Limited (“Phoenix Bermuda”), Phoenix Canada provided investment advisory and portfolio management services to PFIA LP and others. This arrangement ultimately was formalized in a Services Agreement dated June 15, 1999 (the “Services Agreement”).

8. Pursuant to an Investment Advisory Agreement, Phoenix Canada was appointed the investment advisor for the TSE Phoenix Fund.

OVERVIEW OF PFIA LP’S COLLAPSE

9. In late 1998 and throughout 1999, PFIA LP, through trading by Duthie, held inter-day long positions in various U.S. benchmark treasuries (the “UST Notes”) including 6% U.S. treasury notes due August 15, 2009. Duthie’s trading in the UST Notes was directional, unhedged and contrary to PFIA LP’s investment parameters in concentration, size, length of time held and value at risk (“VAR”).

10. In early January 2000, PFIA LP collapsed when it sustained a loss in excess of US$100 million. By this time, Duthie had accumulated a US$3.3 billion long position in 6% U.S. treasury notes due August 15, 2009 (the “August 15, 2009’s”). The August 15, 2009’s caused a significant overdraft position at the Bank of New York. Phoenix Canada was forced to liquidate all of PFIA LP’s assets resulting in PFIA LP’s collapse.

11. By trading the UST Notes and accumulating the August 15, 2009’s, Duthie failed to act in good faith, and in the best interests of, Phoenix Canada’s and his clients.

PFIA LP

12. PFIA LP was a hedge fund managed by Phoenix Canada. Its purpose was to provide investors with professionally managed market neutral and arbitrage investment trading strategies. Such trading strategies were generally designed to reduce exposure to market direction.

13. Mock ran PFIA LP. In connection with this aspect of Phoenix Canada's fixed income arbitrage business, Mock's staff comprised 9 employees namely the operations group (Taylor, the operations manager and the settlement clerk), Duthie and two other fixed income traders, the Research and Risk Manager, the Systems Support Manager and an administrative assistant.

14. Duthie joined Phoenix Canada in 1995 as a member of the back office clerical staff. Commencing in the fall of 1995, he engaged in repurchase agreement ("repo") activity to provide cash management support for funds received from PFIA LP's investors and to support the fixed income traders. Duthie became a fixed income trader with Phoenix Canada in or about the summer of 1997. As a trader, he continued his cash management activities.

15. PFIA LP held investments in U.S. dollars, Canadian dollars and Euros. Commencing in the spring of 1998, Duthie became the trader, and was responsible, for PFIA LP's U.S. portfolio under the direct supervision of Mock.

16. In the course of trading PFIA LP's U.S. portfolio, Duthie had discretion as to the specific fixed income securities he bought and sold on behalf of PFIA LP. This discretion was subject to PFIA LP's investment parameters and any Phoenix Canada internal guidelines.

DUTHIE'S TRADING IN THE UST NOTES

17. The Services Agreement delineated PFIA LP's approved fixed income instruments, approved fixed income trades, investment restrictions and risk control guidelines. The approved fixed income trades comprised categories of allowable trades and their corresponding risk limits (VAR expressed as a percentage of the net asset value). The investment restrictions established minimum credit quality limits for permitted fixed income instruments. Although the Agreement was not executed until June 1999, Phoenix Canada had been operating under comparable parameters for well over a year.

18. Phoenix Canada also instituted informal investment limits. These informal thresholds (relating to trade initiation) applied to PFIA LP and were more conservative than those contained in the Services Agreement.

19. Commencing in the fall of 1998, Duthie traded the UST Notes. Duthie financed the leveraged positions in UST Notes using repos. Shortfalls were funded, and transaction costs satisfied, by accessing additional collateral. By trading the unhedged long bonds, PFIA LP was exposed to market risk which was magnified by the leverage of the UST Notes.

20. Duthie's position in the August 15, 2009's increased from US$181 million on August 12, 1999 to US$3.3 billion on December 31, 1999. By mid-November, the August 15, 2009's represented PFIA LP's entire U.S. portfolio. By December 31, 1999, the August 15, 2009's constituted approximately 80% of PFIA LP's total assets.

21. Duthie's trading of the UST Notes fell well outside PFIA LP's investment parameters in concentration, size, length of time held and VAR. Many of Duthie's trades in the UST Notes were not intra-day trades. Most of Duthie's trades in the UST Notes were not hedged.

22. A calculation of the VAR at December 31, 1999 for the August 15, 2009's was approximately $28 million, a VAR which greatly exceeded PFIA LP's limits.

23. PFIA LP's risk control guidelines mandated that PFIA LP's aggregate position not exceed 4% of net asset value ("NAV"). As at December 31, 1999, the August 15, 2009's represented 14% of PFIA LP's NAV.

24. Duthie never marked to market the UST Notes. Because of the misstated prices Duthie attributed to the August 15, 2009's, as at December 31, 1999, PFIA LP's U.S. portfolio was overvalued by more than US$80 million.

25. By mispricing the UST Notes and accessing contingency collateral, Duthie masked unrealized losses and smoothed the income pattern for PFIA LP's U.S. portfolio.

26. Incorrect pricing information concerning the UST Notes was submitted to the Bank of Bermuda (Phoenix Canada's administrator and custodian).

27. Further, unitholders were provided with inaccurate information concerning the value of their investment. Duthie's mispricing of the UST Notes flowed through to the NAV reported to PFIA LP investors, including the TSE Phoenix Fund shareholders.

28. The trades of the UST Notes and the accumulation of the August 15, 2009's contravened PFIA LP's investment objectives and parameters. They were not suitable investments for PFIA LP.

29. For at least 15 months, Duthie abused the discretion granted to him and compromised his clients' interests.

30. Further, Duthie engaged in registerable activity. Contrary to section 25 of the Act, Duthie was not registered with the Commission.

31. Duthie's conduct was contrary to Ontario securities law and the public interest.

32. Staff reserves the right to make such further and other allegations as Staff may submit and the Commission may allow.

DATE: April 9, 2003