



Ontario  
Securities  
Commission

Commission des  
valeurs mobilières  
de l'Ontario

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**IN THE MATTER OF THE SECURITIES ACT  
R.S.O. 1990, c. S.5, AS AMENDED**

**- and -**

**IPC SECURITIES CORPORATION and IPC INVESTMENT CORPORATION**

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**SETTLEMENT AGREEMENT BETWEEN STAFF OF THE COMMISSION and  
IPC SECURITIES CORPORATION and IPC INVESTMENT CORPORATION**

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**PART I – INTRODUCTION**

1. The parties will file a joint request for a public hearing in accordance with Rule 33, to consider whether, pursuant to subsections 127(1) and 127(2) of the *Securities Act*, R.S.O. 1990, c. S.5, as amended (the “Act”), it is in the public interest for the Ontario Securities Commission (the “Commission”) to make certain orders in respect of IPC Securities Corporation (“IPCSC”) and IPC Investment Corporation (“IPCIC”) (together, the “IPC Dealers”).
2. IPCSC is a corporation incorporated pursuant to the laws of Ontario. IPCSC is a member of the Investment Industry Regulatory Organization of Canada (“IIROC”) and is registered with the Commission as an investment dealer.
3. IPCIC is a corporation incorporated pursuant to the laws of Ontario. IPCIC is a member of the Mutual Fund Dealers Association of Canada (“MFDA”) and is registered with the Commission as a mutual fund dealer and an exempt market dealer. Each of the IPC Dealers is a subsidiary of Investment Planning Counsel Inc., which is a subsidiary of IGM Financial Inc. Counsel Portfolio Services Inc. (“Counsel”) is also a subsidiary of Investment Planning Counsel Inc. and is the manager of the Counsel mutual funds (“Counsel Funds”).
4. In March 2015, IPCSC self-reported to IIROC staff and IPCIC self-reported to MFDA staff, certain of the matters described in Part III below. In May 2015 and thereafter, the IPC Dealers met with Staff of the Commission (“Commission Staff”) to discuss these matters which resulted in the identification and reporting of the additional matters also described in Part III below. During Commission Staff’s

investigation of these matters, the IPC Dealers provided prompt, detailed and candid co-operation to Commission Staff.

5. As summarized at paragraph 8 below and more fully described in Part III below, it is Commission Staff's position that there were inadequacies in the IPC Dealers' systems of controls and supervision (the "Control and Supervision Inadequacies") which formed part of their compliance systems which resulted in certain clients paying, directly or indirectly, excess fees that were not detected or corrected by the IPC Dealers in a timely manner.

## **PART II - JOINT SETTLEMENT RECOMMENDATION**

6. Commission Staff and the IPC Dealers have agreed to a settlement of the proceeding to be initiated in respect of the IPC Dealers by a Notice of Hearing (the "Proceeding") based on the terms and conditions set out in this settlement agreement (the "Settlement Agreement"). Commission Staff have consulted with IIROC Staff and MFDA Staff in relation to the underlying facts which are the subject matter of this Settlement Agreement.
7. Pursuant to this Settlement Agreement, Commission Staff agree to recommend to the Commission that the Proceeding be resolved and disposed of in accordance with the terms and conditions contained herein.
8. It is Commission Staff's position that:
  - a. the statement of facts set out by Commission Staff in Part III below, which is based on an investigation carried out by Commission Staff following the self-reporting by the IPC Dealers, is supported by the evidence reviewed by Commission Staff and the conclusions contained in Part III are reasonable; and
  - b. it is in the public interest for the Commission to approve this Settlement Agreement, having regard to the following considerations:
    - (i) Commission Staff's allegations are that the IPC Dealers failed to establish, maintain and apply procedures to establish controls and supervision:
      - A. sufficient to provide reasonable assurance that the IPC Dealers, and each individual acting on behalf of the IPC Dealers, complied with securities legislation, including the requirement to deal fairly with clients with regard to fees; and
      - B. that were reasonably likely to identify the non-compliance described in A. above at an early stage and that would have allowed the IPC Dealers to correct the non-compliant conduct in a timely manner;
    - (ii) Commission Staff do not allege, and have found no evidence of dishonest conduct by any of the IPC Dealers;
    - (iii) the IPC Dealers discovered and promptly self-reported certain of the Control and Supervision Inadequacies to IIROC and MFDA staff and thereafter met with Commission Staff to discuss these matters which resulted in the identification

and reporting of all of the Control and Supervision Inadequacies referred to herein;

- (iv) during the investigation of the Control and Supervision Inadequacies by Commission Staff following the self-reporting by the IPC Dealers, the IPC Dealers provided prompt, detailed and candid cooperation to Commission Staff;
- (v) the IPC Dealers had formulated an intention to pay appropriate compensation to eligible clients and former clients when they met with Commission Staff regarding the Control and Supervision Inadequacies and, thereafter, the IPC Dealers co-operated with Commission Staff with a view to providing appropriate compensation to eligible clients and former clients who were harmed by any of the matters in Part III below, including the Control and Supervision Inadequacies (the “Affected Clients”);
- (vi) as part of this Settlement Agreement, the IPC Dealers have agreed to pay appropriate compensation to the Affected Clients, in accordance with a plan submitted by the IPC Dealers to Commission Staff and presented to the Commission (the “Compensation Plan”). As at the date of this Settlement Agreement, the IPC Dealers anticipate paying compensation to Affected Clients of approximately \$10,970,518 in the aggregate in respect of the Control and Supervision Inadequacies;
- (vii) the Compensation Plan prescribes, among other things:
  - A. the detailed methodology to be used for determining the compensation to be paid to the Affected Clients, including an amount representing the time value of money in respect of the compensation to be paid by the IPC Dealers to the Affected Clients;
  - B. the approach to be taken with regard to contacting and making payments to the Affected Clients;
  - C. the timing to complete the various steps included in the Compensation Plan;
  - D. a \$25 *de minimis* exception (the aggregate of such *de minimis* amounts as at the date of this Settlement Agreement is approximately \$9,042 as compared to \$10,970,518 in compensation to be paid) which aggregate *de minimis* amount will be donated to the CPA Financial Literacy Program;
  - E. the approach to be taken to any remaining funds that are not paid out to Affected Clients after the steps included in the Compensation Plan have been fully implemented. In that regard, the Compensation Plan provides that if the IPC Dealers are not able to contact any former Affected Clients, notwithstanding the steps described in the Compensation Plan, each IPC Dealer will use reasonable efforts to locate any Affected Clients who are eligible to receive payment of \$200 or more including directory searches, internet searches, and the employment of third parties to assist in the search. If the IPC Dealer determines that an Affected Client is deceased but does not

know the identity of the personal representative of the Affected Client's estate, and the estate is eligible to receive more than \$400, the IPC Dealer shall make reasonable efforts to identify the personal representative of the deceased Affected Client. Subject to any applicable unclaimed property legislation, any amounts remaining undistributed to non-located clients by June 30, 2020 will be donated to the CPA Financial Literacy Program;

- F. the resolution of Affected Client inquiries through an escalation process; and
  - G. regular reporting to a manager or deputy director in the Compliance and Registrant Regulation Branch of the Commission ("OSC Manager") detailing the IPC Dealers' progress with respect to the implementation of the Compensation Plan, including with regard to the resolution of Affected Client inquiries;
- (viii) at the request of Commission Staff, each of the IPC Dealers conducted an extensive review of their securities related businesses in Canada to identify whether there were any other instances of inadequacy in their systems of controls and supervision leading to eligible clients directly paying excess fees, or indirectly paying excess fees on mutual funds managed by Counsel, an affiliate of the IPC Dealers. Based on this review, the IPC Dealers have advised Commission Staff that there are no other instances other than those instances of Control and Supervision Inadequacies described herein;
  - (ix) the IPC Dealers have taken and are taking corrective action including enhancing the existing controls and supervision to address the Control and Supervision Inadequacies by establishing and implementing enhanced procedures and controls, supervisory and monitoring systems designed to prevent the re-occurrence of the Control and Supervision Inadequacies in the future (the "Enhanced Control and Supervision Procedures") and, as part of this Settlement Agreement, the IPC Dealers are required to report to the OSC Manager on the development and implementation of the Enhanced Control and Supervision Procedures;
  - (x) the IPC Dealers have agreed to make a voluntary payment of \$460,000 to the Commission to be designated for allocation or use by the Commission in accordance with paragraphs (b)(i) or (ii) of subsection 3.4(2) of the Act;
  - (xi) the IPC Dealers have agreed to make a further voluntary payment of \$30,000 to reimburse the Commission for costs incurred or to be incurred;
  - (xii) the total agreed voluntary payments of \$490,000 will be paid by wire transfer before the commencement of the hearing before the Commission to approve this Settlement Agreement, which payment is conditional upon approval of this Settlement Agreement by the Commission; and
  - (xiii) the terms of this Settlement Agreement are appropriate in all the circumstances, including mitigating factors and the principles of general and specific deterrence. Commission Staff are of the view that the voluntary payments referred to above

in addition to the amounts to be paid as compensation to Affected Clients by the IPC Dealers will emphasize to the marketplace that Commission Staff expect registrants to have compliance systems with appropriate controls and supervision in place which:

- A. provide reasonable assurance that registrants, and each individual acting on behalf of registrants, are complying with securities legislation, including the requirement to deal fairly with clients with regard to fees; and
  - B. are reasonably likely to allow registrants to identify and correct non-compliance with securities legislation in a timely manner.
9. The IPC Dealers neither admit nor deny the accuracy of the facts or the conclusions of Commission Staff as set out in Part III of this Settlement Agreement.
  10. The IPC Dealers agree to this Settlement Agreement and to the making of an order in the form attached as Schedule "A".

### **PART III – COMMISSION STAFF’S STATEMENT OF FACTS AND CONCLUSIONS**

#### **A. Overview**

11. In March 2015, IPCSC self-reported to IIROC staff and IPCIC self-reported to MFDA staff, certain of the Control and Supervision Inadequacies described below relating to the Trailer-Paying Assets and the MER Differential Funds (each defined below). In May 2015 and thereafter, the IPC Dealers met with Commission Staff to discuss these matters which commenced a process which resulted in the identification and reporting of the Control and Supervision Inadequacy relating to Product Fee Assets (defined below). The IPC Dealers took steps to correct the Control and Supervision Inadequacies beginning in 2016, as further described in paragraphs 18(c), 22(c) and 31 below.
12. Some clients of the IPC Dealers have fee-based accounts and are charged a fee for investment services received in respect of assets held in the account (the "Fee-Based Accounts"). The investment services fee is either a flat fee or based on the client's assets under management (the "Account Fee").
13. The Control and Supervision Inadequacies are summarized as follows:
  - a. for some clients of the IPC Dealers with Fee-Based Accounts, assets held in their Fee-Based Accounts included certain mutual funds, exchange traded funds, and structured products with embedded trailer fees (collectively "Trailer-Paying Assets") and/or certain Counsel Funds with negotiable advisory fees ("Product Fee Assets"), resulting in some clients paying excess fees because the IPC Dealers received: trailer fees during the period (i) January 1, 2009 to September 30, 2016 for IPCSC clients and (ii) January 1, 2009 to March 31, 2017 for IPCIC clients; and, negotiable advisory fees during the period January 1, 2009 to December 31, 2017 for clients of the IPC Dealers; in addition to the Account Fee;
  - b. for some clients of the IPC Dealers with Fee-Based Accounts under programs which classify assets for fee-billing purposes, assets held in their Fee-Based Accounts included certain Trailer-Paying Assets which were incorrectly included in Account Fee calculations, resulting

in some clients paying excess fees for the period (i) July 1, 2013 to April 30, 2016 for IPCSC clients and (ii) May 1, 2015 to April 30, 2018 for IPCIC clients;

- c. some clients of the IPC Dealers were not advised that they qualified for a lower Management Expense Ratio ("MER") series of an MER Differential Fund (as defined below) and indirectly paid excess fees when they invested in the higher MER series of the same mutual fund during the period November 1, 2009 to October 31, 2016.
14. These Control and Supervision Inadequacies continued undetected for an extended period of time. The IPC Dealers discovered the Control and Supervision Inadequacies following inquiries made and/or reviews conducted by the relevant IPC Dealers.
  15. As set out in greater detail below in the section entitled Mitigating Factors, since 2016, the IPC Dealers have taken and are taking several remedial steps in order to correct the Control and Supervision Inadequacies.
  16. The IPC Dealers engaged an independent third party to assist them in identifying, calculating, and validating the amounts to be paid to Affected Clients.

## **B. The Control and Supervision Inadequacies**

### **(a) Excess Trailer Fees and/or Negotiable Advisory Fees in Some Fee-Based Accounts**

17. For some clients of the IPC Dealers with Fee-Based Accounts, assets held in the Fee-Based Account included certain Product Fee Assets and/or Trailer-Paying Assets that were subject to an Account Fee, thereby resulting in some clients indirectly paying excess fees when the IPC Dealers received negotiable advisory fees or trailer fees in addition to the Account Fee.
18. As part of their review, the IPC Dealers identified instances in which clients had purchased or held Product Fee Assets and/or Trailer-Paying Assets in these Fee-Based Accounts during the period from January 1, 2009 to December 31, 2017. Specifically,
  - a. it was determined that the IPC Dealers did not have adequate systems of internal controls and supervision in place to ensure that clients were not subject to trailer fees on Trailer-Paying Assets or negotiable advisory fees on Product Fee Assets if those assets were also subject to an Account Fee;
  - b. it was determined that the IPC Dealers' internal controls failed to identify this Control and Supervision Inadequacy in a timely manner; and
  - c. in September 2016 and March 2017, the IPC Dealers implemented steps to ensure that when clients purchase Trailer-Paying Assets in Fee-Based Accounts those assets are excluded from the calculation of Account Fees, and in 2018, implemented and are implementing steps to ensure that clients do not pay both a negotiable advisory fee and an Account Fee on Product Fee Assets in Fee-Based Accounts.
19. Upon identification of the issues described above, the IPC Dealers took steps to determine the extent of the problem and how to compensate Affected Clients. The IPC Dealers have determined that, as a result of this Control and Supervision Inadequacy, approximately 2346 client accounts were affected

in respect of trailer fees during the periods (i) January 1, 2009 to September 30, 2016 for IPCSC clients and (ii) January 1, 2009 to March 31, 2017 for IPCIC clients, and approximately 644 client accounts of the IPC Dealers were affected in respect of negotiable advisory fees during the period January 1, 2009 to December 31, 2017.

20. The IPC Dealers have agreed to compensate the Affected Clients who held these Trailer-Paying Assets and Product Fee Assets in their Fee-Based Accounts during the relevant period in accordance with the Compensation Plan, which requires that the IPC Dealers pay to these Affected Clients:
  - a. an amount representing the trailer fee or the negotiable advisory fee received; and
  - b. an amount representing the forgone opportunity cost in respect of the trailer or negotiable advisory fee from the time the fee was received to June 30, 2018, based on a simple interest rate of 5% per annum calculated monthly or quarterly (the "Embedded Fee Opportunity Cost").
21. As at the date of this Settlement Agreement, the IPC Dealers have determined that the total amount to be paid to these Affected Clients in relation to trailer fees and/or negotiable advisory fees pursuant to the Compensation Plan, inclusive of the Embedded Fee Opportunity Cost, is approximately \$1,974,069.

**(b) Excess Account Fees in Some Fee-Based Accounts**

22. For some clients of the IPC Dealers who have Fee-Based Accounts under programs which classify assets for fee-billing purposes, the IPC Dealers discovered that a number of Trailer-Paying Assets had been incorrectly classified for those purposes and incorrectly included in the calculation of the Account Fee in some Fee-Based Accounts during the periods (i) July 1, 2013 to April 30, 2016 for IPCSC clients and (ii) May 1, 2015 to April 30, 2018 for IPCIC clients, and, as a result, those clients were charged excess Account Fees. Specifically,
  - a. it was determined that the IPC Dealers did not have adequate systems of internal controls and supervision in place to ensure that Trailer-Paying Assets were classified correctly and excluded consistently from the calculation of the Account Fee;
  - b. it was determined that the IPC Dealers' internal controls failed to detect this Control and Supervision Inadequacy in a timely manner; and
  - c. in April 2016 and following, the IPC Dealers took immediate steps to ensure that incorrectly classified Trailer-Paying Assets were classified correctly and implemented and are implementing steps to ensure that Trailer-Paying Assets are excluded consistently from the calculation of the Account Fee on a going forward basis.
23. Upon identification of the issues described above, the IPC Dealers took steps to determine the extent of the problem and how to compensate Affected Clients. The IPC Dealers have determined that, as a result of this Control and Supervision Inadequacy, approximately 431 client accounts were charged excess Account Fees during the periods (i) July 1, 2013 to April 30, 2016 for IPCSC clients and (ii) May 1, 2015 to April 30, 2018 for IPCIC clients.

24. The IPC Dealers have agreed to compensate the Affected Clients who held these securities in their Fee-Based Accounts during the relevant time period in accordance with the Compensation Plan, which requires that the IPC Dealers pay to these Affected Clients:
  - a. an amount representing the excess Account Fees;
  - b. an amount representing the applicable sales tax charged on the excess Account Fees; and
  - c. an amount representing the time value of money in respect of the excess Account Fees from the time the excess Account Fees were charged to June 30, 2018, based on a simple interest rate of 5% per annum calculated monthly (the "Account Fees Opportunity Cost").
25. Where Account Fees were undercharged to the client, the benefit of those undercharges will not be set off against any compensation amounts paid to the client. The undercharges also will not otherwise be charged to Affected Clients or any other clients.
26. As at the date of this Settlement Agreement, the IPC Dealers have determined that the total amount to be paid to these Affected Clients in relation to Account Fees pursuant to the Compensation Plan, inclusive of the Account Fees Opportunity Cost is approximately \$38,506.

**(c) Excess Indirect Fees paid by some Clients Invested in MER Differential Funds**

27. Counsel, an affiliate of the IPC Dealers, manages the Counsel Funds, some of which are available in different series. For certain of these Counsel Funds, there were two series of the same mutual fund which differed solely in that the MER of one series, which had a higher minimum investment threshold, was lower (the "Premium Series") than the MER of the other series (the "Non-Premium Series") (the "MER Differential Funds").
28. The MER Differential Funds identified with instances of the Control and Supervision Inadequacies were Counsel Funds with Non-Premium Series A, Series B or Series T and Premium Series E, EB and ET, respectively, where the MER differential between the Premium Series and the Non-Premium Series varied from 8 to 67 basis points.
29. The applicable threshold for the Premium Series of the MER Differential Funds was \$75,000 invested in Counsel Funds in the client's account, or together with certain eligible family members at the client's election.
30. The IPC Dealers conducted a review of the MER Differential Funds to cover the period from November 1, 2009 to October 31, 2016 and determined that certain client accounts invested in an MER Differential Fund that appeared to qualify for the Premium Series of an MER Differential Fund were not invested in that series and therefore the holders of those client accounts did not benefit from its lower MER. Specifically,
  - a. it was determined that the IPC Dealers did not have adequate systems of internal controls and supervision in place to ensure that when a purchase or transfer-in of securities in an MER Differential Fund, alone or combined with existing holdings of Counsel Funds, exceeded the minimum investment threshold required to qualify for the Premium Series of the same mutual fund, the client was advised consistently that the Premium Series of the same mutual fund was available to the client; and

- b. it was determined that the IPC Dealers' internal controls failed to identify this Control and Supervision Inadequacy in a timely manner.
31. Upon identification of the issues above, the IPC Dealers and Counsel took steps to determine the extent of the problem, mechanisms to prevent its recurrence, and how to compensate Affected Clients. The mechanisms adopted include certain pricing changes implemented by Counsel on October 28, 2016 to the Non-Premium Series to reduce the management fees and/or the fixed administration fees and thereafter, on November 4, 2016, to re-designate most Premium Series to the corresponding Non-Premium Series. Premium Series which were not so re-designated were closed to future purchases on October 28, 2016.
32. The IPC Dealers have determined that there are approximately 7140 client accounts that ought to have been invested in the Premium Series of the same MER Differential Fund but were not from November 1, 2009 to October 31, 2016.
33. In accordance with the Compensation Plan, in respect of those client accounts, the IPC Dealers will pay Affected Clients:
  - a. an amount representing the difference in the return that the Affected Client would have received on any security held by the client of an MER Differential Fund had the client been invested in the Premium Series securities of that fund in a timely manner upon being eligible to invest in the Premium Series held in that mutual fund for the entire period in which the Affected Client qualified for an available Premium Series (“Difference in Return”); and
  - b. an amount representing the time value of money in respect of the Difference in Return from the earlier of October 31, 2016, or the date of any sale, conversion, redemption, transfer or disposition of Counsel Fund securities resulting in the Affected Client’s account balance being below the threshold, to June 30, 2018 based on a simple interest rate of 5% per annum (the “MER Opportunity Cost”).
34. The IPC Dealers are also taking steps to compensate and migrate the securities of eligible Affected Clients who held securities as of October 31, 2016 in a Non-Premium Series with a corresponding closed Premium Series (the “Closed Series Clients”) to the closed Premium Series. The migration of the Closed Series Clients’ securities are one-time changes which the IPC Dealers will describe in their communication to those Clients, and which are for the sole purpose of resolving the Control and Supervision Inadequacy related to the MER Differential Funds. Other than a difference in the fees, there are no material differences between closed Premium Series securities and Non-Premium Series securities of the same MER Differential Fund. The migration process will result in Closed Series Clients receiving a trade confirmation after the migration. Further, in accordance with the Compensation Plan, in addition to the compensation set out at paragraph 33 above, the IPC Dealers will pay Closed Series Clients:
  - a. the Difference in Return in respect of the applicable closed Premium Series from November 1, 2016 for the entire period in which the Closed Series Client held securities in the Non-Premium Series of an applicable Counsel Fund with a closed Premium Series; and
  - b. the MER Opportunity Cost in respect of the above Difference in Return from the date of any sale, conversion, redemption, transfer or disposition of all of the securities in the Non-

Premium Series of an applicable Counsel Fund with a closed Premium Series to June 30, 2018.

35. On this basis, the IPC Dealers have determined that the total compensation to be paid to Affected Clients as a result of this Control and Supervision Inadequacy is approximately \$8,957,942, inclusive of the MER Opportunity Cost where applicable.

### **C. Breaches of Ontario Securities Law**

36. With respect to the Control and Supervision Inadequacies, the IPC Dealers failed to establish, maintain and apply procedures to establish controls and supervision:
- a. sufficient to provide reasonable assurance that the IPC Dealers, and each individual acting on behalf of the IPC Dealers, complied with securities legislation, including the requirement to deal fairly with clients with regard to fees; and
  - b. that were reasonably likely to identify the non-compliance described in a. above at an early stage and that would have allowed the IPC Dealers to correct the non-compliant conduct in a timely manner.
37. As a result, these instances of Control and Supervision Inadequacies constituted a breach of section 11.1 of National Instrument 31-103 – *Registration Requirements, Exemptions and Ongoing Registrant Obligations* (“NI 31-103”). In addition, the failures in the IPC Dealers’ systems of controls and supervision associated with the Control and Supervision Inadequacies were contrary to the public interest.

### **D. Mitigating Factors**

38. Commission Staff do not allege, and have found no evidence of dishonest conduct by any of the IPC Dealers or their employees.
39. The IPC Dealers discovered and promptly self-reported certain of the Control and Supervision Inadequacies to IIROC and MFDA staff and thereafter met with Commission Staff to discuss these matters which resulted in the identification and reporting of all of the Control and Supervision Inadequacies referred to herein.
40. During the investigation of the Control and Supervision Inadequacies by Commission Staff following the self-reporting by the IPC Dealers, the IPC Dealers provided prompt, detailed and candid cooperation to Commission Staff.
41. The IPC Dealers had formulated an intention to pay appropriate compensation to Affected Clients when they met with Commission Staff regarding the Control and Supervision Inadequacies and, thereafter, the IPC Dealers co-operated with Commission Staff with a view to providing appropriate compensation to the Affected Clients who were harmed by any of the Control and Supervision Inadequacies.
42. As part of this Settlement Agreement, the IPC Dealers have agreed to pay appropriate compensation to the Affected Clients, in accordance with the Compensation Plan. As at the date of this Settlement

Agreement, the IPC Dealers anticipate paying compensation to Affected Clients of approximately \$10,970,518 in the aggregate in respect of the Control and Supervision Inadequacies.

43. The Compensation Plan prescribes, among other things:
- a. the detailed methodology to be used for determining the compensation to be paid to the Affected Clients, including an amount representing the time value of money in respect of the compensation to be paid by the IPC Dealers to the Affected Clients;
  - b. the approach to be taken with regard to contacting and making payments to the Affected Clients;
  - c. the timing to complete the various steps included in the Compensation Plan;
  - d. a \$25 *de minimis* exception (the aggregate of such *de minimis* amounts as at the date of this Settlement Agreement is approximately \$9,042 as compared to \$10,970,518 in compensation to be paid), which aggregate *de minimis* amount will be donated to the CPA Financial Literacy Program;
  - e. the approach to be taken to any remaining funds that are not paid out to Affected Clients after the steps included in the Compensation Plan have been fully implemented. In that regard, the Compensation Plan provides that if the IPC Dealers are not able to contact any former Affected Clients, notwithstanding the steps described in the Compensation Plan, each IPC Dealer will use reasonable efforts to locate any Affected Clients who are eligible to receive payment of \$200 or more including directory searches, internet searches, and the employment of third parties to assist in the search. If the IPC Dealer determines that an Affected Client is deceased but does not know the identity of the personal representative of the Affected Client's estate, and the estate is eligible to receive more than \$400, the IPC Dealer shall make reasonable efforts to identify the personal representative of the deceased Affected Client. Subject to any applicable unclaimed property legislation, any amounts remaining undistributed to non-located clients on June 30, 2020 will be donated to the CPA Financial Literacy Program;
  - f. the resolution of Affected Client inquiries through an escalation process; and
  - g. regular reporting to the OSC Manager detailing the IPC Dealers' progress with respect to the implementation of the Compensation Plan, including with regard to the resolution of Affected Client inquiries.
44. At the request of Commission Staff, each of the IPC Dealers conducted an extensive review of their securities related businesses in Canada to identify whether there were any other instances of inadequacy in their systems of controls and supervision leading to eligible clients directly paying excess fees, or indirectly paying excess fees on mutual funds managed by Counsel. Based on this review, the IPC Dealers have advised Commission Staff that there are no instances of Control and Supervision Inadequacies other than those described herein.
45. The IPC Dealers have taken and are taking corrective action including implementing the Enhanced Control and Supervision Procedures and, as part of this Settlement Agreement, the IPC Dealers are

required to report to the OSC Manager on the development and implementation of the Enhanced Control and Supervision Procedures.

46. The IPC Dealers have agreed to make voluntary payments totalling \$490,000 as described in paragraphs 8(b)(x) and (xi) above.
47. The IPC Dealers will pay the total agreed voluntary payment amount of \$490,000 by wire transfer before the commencement of the hearing before the Commission to approve this Settlement Agreement, which payment is conditional upon approval of this Settlement Agreement by the Commission.
48. The terms of settlement are appropriate in all the circumstances, including mitigating factors and the principles of general and specific deterrence. Commission Staff are of the view that the voluntary payments referred to above in addition to the amounts to be paid as compensation to Affected Clients by the IPC Dealers will emphasize to the marketplace that Commission Staff expect registrants to have compliance systems with appropriate controls and supervision in place which:
  - a. provide reasonable assurance that registrants, and each individual acting on behalf of registrants, are complying with securities legislation, including the requirement to deal fairly with clients with regard to fees; and
  - b. are reasonably likely to allow registrants to identify and correct non-compliance with securities legislation in a timely manner.

#### **E. The IPC Dealers' Undertaking**

49. By signing this Settlement Agreement, the IPC Dealers undertake to:
  - a. pay compensation to the Affected Clients in accordance with the Compensation Plan and to report to the OSC Manager in accordance with the Compensation Plan; and
  - b. make the voluntary payments referred to in paragraphs 8(b)(x) and (xi) above (the "Undertaking").

#### **PART IV – TERMS OF SETTLEMENT**

50. The IPC Dealers agree to the terms of settlement listed below and consent to the Order in substantially the form attached hereto, that provides that, pursuant to section 127 of the Act:
  - a. pursuant to subsection 127(1) of the Act, the Settlement Agreement is approved;
  - b. pursuant to subsection 127(2) of the Act, the approval of the Settlement Agreement is subject to the following terms and conditions:
    - i. within 90 days of receiving comments from Staff regarding the Enhanced Control and Supervision Procedures, the IPC Dealers shall provide to the OSC Manager, revised written policies and procedures (the "Revised Policies and Procedures") for each of the IPC Dealers that, to the satisfaction of the OSC Manager, are responsive to any remaining issues raised by Commission Staff with regard to the

IPC Dealers' policies and procedures to establish the Enhanced Control and Supervision Procedures (the "Remaining Issues");

- ii. thereafter, the IPC Dealers shall make such further modifications to their Revised Policies and Procedures as are required to ensure that the Revised Policies and Procedures address any Remaining Issues to the satisfaction of the OSC Manager;
- iii. within eight months of receiving confirmation from the OSC Manager that the Revised Policies and Procedures satisfy the Remaining Issues raised by Commission Staff (the "Confirmation Date"), the IPC Dealers shall submit a letter (the "Attestation Letter"), signed by the Ultimate Designated Person and the Chief Compliance Officer for each of the IPC Dealers, to the OSC Manager, expressing their opinion on whether the Enhanced Control and Supervision Procedures were adequately followed, administered and enforced by the IPC Dealer for the six month period commencing from the Confirmation Date;
- iv. the Attestation Letter shall be accompanied by a report which provides a description of the testing performed to support the conclusions contained in the Attestation Letter;
- v. the IPC Dealers shall submit such additional reports as may be requested by the OSC Manager for the purpose of satisfying the OSC Manager that the opinion expressed in the Attestation Letter described in subparagraph (b)(iii) above is valid;
- vi. any of the IPC Dealers or Commission Staff may apply to the Commission for directions in respect of any issues that may arise with regard to the implementation of subparagraphs (b)(i) to (v) above; and
- vii. the IPC Dealers shall comply with the Undertaking.

51. The IPC Dealers agree to make the voluntary payments described in paragraphs 8(b)(x) and (xi) by wire transfer before the commencement of the hearing before the Commission to approve this Settlement Agreement.

#### **PART V - COMMISSION STAFF COMMITMENT**

52. If the Commission approves this Settlement Agreement, Commission Staff will not commence any proceeding under Ontario securities law in relation to the Commission Staff's Statement of Facts and Conclusions set out in Part III of this Settlement Agreement, subject to the provisions of paragraph 53 below and except with respect to paragraph 44 above, and nothing in this Settlement Agreement shall be interpreted as limiting Commission Staff's ability to commence proceedings against the IPC Dealers in relation to any control and supervision inadequacies leading to clients paying excess fees other than the Control and Supervision Inadequacies described herein.
53. If the Commission approves this Settlement Agreement and either of the IPC Dealers fails to comply with any of the terms of this Settlement Agreement, Commission Staff may bring proceedings under Ontario securities law against the applicable IPC Dealer. These proceedings may be based on, but are

not limited to, the Commission Staff's Statement of Facts and Conclusions set out in Part III of this Settlement Agreement as well as the breach of this Settlement Agreement.

#### **PART VI - PROCEDURE FOR APPROVAL OF SETTLEMENT**

54. The parties will seek approval of this Settlement Agreement at a public hearing before the Commission scheduled for June 7, 2018, or on another date agreed to by Commission Staff and the IPC Dealers, according to the procedures set out in this Settlement Agreement and the Commission's Rules of Procedure.
55. Commission Staff and the IPC Dealers agree that this Settlement Agreement will form all of the evidence that will be submitted at the settlement hearing on the IPC Dealers' conduct, unless the parties agree that additional evidence should be submitted at the settlement hearing.
56. If the Commission approves this Settlement Agreement, the IPC Dealers agree to waive all rights to a full hearing, judicial review or appeal of this matter under the Act.
57. If the Commission approves this Settlement Agreement, the IPC Dealers will not make any public statement that is inconsistent with this Settlement Agreement or with any additional evidence submitted at the settlement hearing. In addition, the IPC Dealers agree that they will not make any public statement that there is no factual basis for this Settlement Agreement. Nothing in this paragraph affects the IPC Dealers' testimonial obligations or the right to take legal or factual positions in other investigations or legal proceedings in which the Commission and/or Commission Staff is not a party or in which any provincial or territorial securities regulatory authority in Canada and/or its staff is not a party ("Other Proceedings") or to make public statements in connection with Other Proceedings.
58. The IPC Dealers will not use, in any proceeding, this Settlement Agreement or the negotiation or process of approval of this Settlement Agreement as the basis for any attack on the Commission's jurisdiction, alleged bias, alleged unfairness, or any other remedies or challenges that may otherwise be available.

#### **PART VII - DISCLOSURE OF SETTLEMENT AGREEMENT**

59. If the Commission does not approve this Settlement Agreement or does not make the order attached as Schedule "A" to this Settlement Agreement:
  - a. this Settlement Agreement and all discussions and negotiations between Commission Staff and the IPC Dealers before the settlement hearing takes place will be without prejudice to Commission Staff and the IPC Dealers; and
  - b. Commission Staff and the IPC Dealers will each be entitled to all available proceedings, remedies and challenges, including proceeding to a hearing of the allegations contained in the Statement of Allegations. Any proceedings, remedies and challenges will not be affected by this Settlement Agreement, or by any discussions or negotiations relating to this Settlement Agreement.
60. The parties will keep the terms of this Settlement Agreement confidential until the commencement of the public hearing to obtain approval of this Settlement Agreement by the Commission. Any obligations of confidentiality shall terminate upon the commencement of the public settlement hearing.

If, for whatever reason, the Commission does not approve this Settlement Agreement, the terms of this Settlement Agreement remain confidential indefinitely, unless Commission Staff and the IPC Dealers otherwise agree or if required by law.

**PART VIII - EXECUTION OF SETTLEMENT AGREEMENT**

- 61. This agreement may be signed in one or more counterparts which, together, constitute a binding agreement.
- 62. A facsimile copy or other electronic copy of any signature will be as effective as an original signature.

Dated this 5<sup>th</sup> day of June, 2018

**IPC SECURITIES CORPORATION**

Per: “John Novachis”  
John Novachis  
President and Ultimate Designated Person

Per: “Darryl Fernandez”  
Darryl Fernandez  
Chief Financial Officer

**IPC INVESTMENT CORPORATION**

Per: “John Novachis”  
John Novachis  
President and Ultimate Designated Person

Per: “Darryl Fernandez”  
Darryl Fernandez  
Chief Financial Officer

**COMMISSION STAFF**

“Jeff Kehoe”  
Jeff Kehoe  
Director, Enforcement Branch  
Ontario Securities Commission

SCHEDULE "A"



Ontario  
Securities  
Commission

Commission des  
valeurs mobilières  
de l'Ontario

22<sup>nd</sup> Floor  
20 Queen Street West  
Toronto ON M5H 3S8

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

**FILE NO:**

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

**ORDER**

Subsection 127(1) of the  
*Securities Act*, RSO 1990, c S.5

**WHEREAS** on June 7, 2018, the Ontario Securities Commission (the **Commission**) held a hearing at the offices of the Commission, located at 20 Queen Street West, 17<sup>th</sup> Floor, Toronto, Ontario to consider an Application made jointly by Staff of the Commission (**Staff**) and IPC Securities Corporation and IPC Investment Corporation (the **IPC Dealers**) for approval of a settlement agreement dated June 5, 2018 (the **Settlement Agreement**);

**ON READING** the Statement of Allegations dated June 5, 2018 and the Joint Application Record for a Settlement Hearing dated June 5, 2018, including the Settlement Agreement and on hearing the submissions of counsel for the IPC Dealers and Staff;

**IT IS HEREBY ORDERED THAT:**

- (a) pursuant to subsection 127(1) of the Act, the Settlement Agreement is approved; and
- (b) pursuant to subsection 127(2) of the Act, the approval of the Settlement Agreement is subject to the following terms and conditions:
  - (i) in respect of inadequacies in the IPC Dealers' systems of controls and supervision which formed part of their compliance systems (the **Control and Supervision Inadequacies**), within 90 days of receiving comments from Staff regarding the procedures, controls and supervisory and monitoring systems designed to prevent the re-occurrence of the Control and Supervision Inadequacies (the **Enhanced Control and Supervision Procedures**), the IPC Dealers shall, for each of the IPC Dealers, provide to a manager or deputy director in the Compliance and Registrant Regulation Branch (the **OSC Manager**), revised written policies and procedures (the **Revised Policies and Procedures**) that, to the satisfaction of the OSC Manager, are responsive to any remaining issues raised by Staff with regard to the IPC Dealers' policies and procedures to establish the Enhanced Control and Supervision Procedures (the **Remaining Issues**);
  - (ii) thereafter, the IPC Dealers shall make such further modifications to their Revised Policies and Procedures as are required to ensure that the Revised Policies and Procedures address any Remaining Issues to the satisfaction of the OSC Manager;

- (iii) within eight months of receiving confirmation from the OSC Manager that the Revised Policies and Procedures satisfy the Remaining Issues raised by Staff (the **Confirmation Date**), the IPC Dealers shall submit a letter (the **Attestation Letter**), signed by the Ultimate Designated Person and the Chief Compliance Officer for each of the IPC Dealers, to the OSC Manager, expressing their opinion as to whether the Enhanced Control and Supervision Procedures were adequately followed, administered and enforced by the IPC Dealer for the six month period commencing from the Confirmation Date;
- (iv) the Attestation Letter shall be accompanied by a report which provides a description of the testing performed to support the conclusions contained in the Attestation Letter;
- (v) the IPC Dealers shall submit such additional reports as may be requested by the OSC Manager for the purpose of satisfying the OSC Manager that the opinion expressed in the Attestation Letter described in subparagraph (b)(iii) above is valid;
- (vi) any of the IPC Dealers or Staff may apply to the Commission for directions in respect of any issues that may arise with regard to the implementation of subparagraphs (b)(i) to (v) above;
- (vii) the IPC Dealers shall comply with their undertaking in the Settlement Agreement to:
  - a. pay compensation to eligible clients and former clients and report to the OSC Manager in accordance with a plan submitted by them to Staff (the **Compensation Plan**);
  - b. make a voluntary payment of \$30,000 to reimburse the Commission for costs incurred or to be incurred by it; and
  - c. make a further voluntary payment of \$460,000 to be designated for allocation or use by the Commission in accordance with paragraph 3.4(2)(b)(i) or (ii) of the Act; and
- (viii) the voluntary payment referred to in paragraph (vii)(c) above is designated for allocation or use by the Commission in accordance with subparagraph 3.4(2)(b)(i) or (ii) of the Act.

**DATED** at Toronto, Ontario this     day of June, 2018

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