

INVESTMENT INDUSTRY REGULATORY ORGANIZATION OF CANADA

IN THE MATTER OF:

AN EXPEDITED HEARING PURSUANT TO *DEALER MEMBER
RULE 20.42* OF THE INVESTMENT INDUSTRY REGULATORY
ORGANIZATION OF CANADA

AND

NORTHERN SECURITIES INC.

NOTICE OF APPLICATION

TAKE NOTICE that on Wednesday, December 12, 2012, at IIROC, 121 King Street West, Suite 2000, in Toronto, Ontario, at 10:30 a.m. or as soon thereafter as this application can be heard, staff of the Investment Industry Regulatory Organization of Canada (“IIROC Staff”) will make an application to a Hearing Panel in an Expedited Hearing **ON NOTICE** to Northern Securities Inc. (“NSI”) pursuant to Dealer Member Rules 20.41, 20.42 and 20.45 and Rule 16 of the Rules of Practice and Procedure.

THE RELIEF SOUGHT IS:

1. An Order providing that:

- (a) As a condition of NSI’s continued approval and Membership, NSI provide written notice to all of its clients by no later than December 17, 2012, of the following:
 - i. that as of December 31, 2012 all NSI client accounts will be restricted to liquidating trades and/or transfer-outs as a result of the termination of the Introducing Broker/Carrying Broker Agreement between NSI and Penson Financial Services Canada (“Penson”);

- ii. that clients have the right to transfer their accounts with NSI to another Dealer Member immediately to avoid the application of the restrictions to their accounts; and
 - iii. that clients must notify Penson of any transfer as soon as possible and by no later than December 31, 2012 to avoid the application of the restrictions to their accounts.
- (b) NSI shall confirm in writing to IIROC Staff by December 17, 2012 that written notice has been provided to all of its clients;
- (c) NSI is suspended, if by December 31, 2012 it has not:
- i. secured an introducing/carrying broker arrangement pursuant to Rule 35; or
 - ii. secured any other proposed arrangement that enables NSI to fulfill all of its regulatory obligations with respect to client account record keeping and reporting and client account asset custody and segregation.
- (d) Subject to the imposition of the penalty in paragraph 1(c) hereof, IIROC Staff may undertake any action with Penson to facilitate the orderly transfer of client accounts from NSI in a manner consistent with applicable law;
- (e) Subject to the imposition of the penalty in paragraph 1(c) hereof, NSI shall immediately cease dealing with the public;
- (f) Subject to the imposition of the penalty in paragraph 1(c) hereof, NSI shall comply with IIROC Dealer Member Rule 600 throughout the suspension period;
- (g) NSI must continue to maintain all of its documents, books, and records;
- (h) This Order will come into effect immediately; and

- (i) Such further and other relief that counsel may request and that the Hearing Panel may permit.

THE GROUNDS FOR THE APPLICATION ARE:

Background

1. NSI is a Type 2 Introducing Broker. Penson has been NSI's carrying broker since December 6, 2002.
2. Penson's last day of standard business operations will be December 31, 2012.
3. On September 28, 2012 Penson notified NSI that it would be terminating the Introducing Broker/Carrying Broker Agreement between the two firms.
4. Penson advised NSI that it expected all client and firm accounts held by it for NSI to be transferred out to an alternate carrying broker or otherwise carried by NSI by no later than December 31, 2012.
5. Penson further advised that, in the event that any NSI accounts remain at Penson on December 31, 2012, Penson would not allow any new business or trading activity in those accounts, other than liquidating transactions and/or transfer outs.
6. Penson has advised NSI that, after December 31, 2012 it will no longer:
 - i. Accept new acquiring trades, other than liquidating trades;
 - ii. Open new accounts or accept inbound account transfers;
 - iii. Offer stock loan services;
 - iv. Offer FX conversion services;
 - v. Provide access to Penson's systems;
 - vi. Settle trades, other than liquidating trades.
7. As of December 31, 2012, as a result of NSI's failure to move its accounts from Penson, clients will no longer be able to engage in new trading or business activity. NSI will no longer be able to carry out Dealer Member activities on behalf of clients.

8. In addition, as of December 31, 2012 any client short positions will be required to be covered, margin borrowing on client accounts may be unavailable or reduced at Penson's discretion, and any margin deficiencies in client accounts will be covered through liquidation of positions held in the accounts.
9. NSI advised IIROC Staff that it was considering the following three options to address the pending wind down of Penson:
 - i. Retain a new carrying broker;
 - ii. Enter into an omnibus arrangement with an existing carrying broker or self-clearing firm and administer certain back office functions itself;
 - iii. Enter into a business amalgamation or a sale.
10. On November 23, 2012, IIROC Staff advised NSI that NSI's failure to enter into a new introducing-carrying arrangement or to demonstrate progress toward an alternative arrangement would soon result in such financial and operating difficulty for NSI that NSI cannot be permitted to continue to operate without risk of imminent harm to NSI's clients.
11. IIROC Staff also advised NSI that if it did not enter into a binding agreement for either a new introducing-carrying arrangement or a business combination with a self-clearing Dealer Member by December 7, 2012, then IIROC Staff would proceed to an expedited hearing to seek appropriate remedies from an IIROC Hearing Panel.

NSI Clients have not been notified

12. NSI has not notified its clients of the restrictions and the implications of the restrictions that Penson intends to impose on December 31, 2012. NSI has not notified its clients that there is an imminent risk that NSI will be unable to implement a transfer out of its client accounts to a new carrying broker or to make alternate arrangements before the termination of the Introducing Broker/Carrying Broker Agreement with Penson.

13. On December 3, 2012, IIROC Staff advised NSI that it should take immediate steps to notify its clients of the impending restrictions if it had not secured a new carrying broker arrangement or a business combination with a self-clearing Dealer Member that will ensure continued service to clients by December 7, 2012.
14. It is imperative that NSI's clients be notified of the restrictions to be applied as of December 31, 2012. The notice to the clients of the impending restrictions will provide them with the opportunity to transfer their accounts to limit or minimize the risk of imminent harm to them as a result of the restrictions.

No Reasonable Prospect of Carrying Broker or Alternate Arrangement

15. NSI has approached several carrying brokers currently registered as such with IIROC. None of these carrying brokers has entered into or is currently considering entering into a Type 2 Introducing Broker/Carrying Broker Arrangement with NSI.
16. NSI has no reasonable prospect of being able to retain a carrying broker.
17. NSI's proposal to enter into an omnibus arrangement with a self-clearing firm or a carrying broker is impractical in the circumstances.
18. NSI has approached several carrying brokers and self-clearing firms about entering into this proposed omnibus arrangement. None of these firms has entered into an omnibus arrangement with NSI.
19. NSI has approached several back office system providers to assist with the implementation of the proposed omnibus arrangement. To date, none of the service providers have agreed to enter into this type of arrangement with NSI. Further, implementing such back office systems would require an extended period of time of up to six to nine months.
20. There is no reasonable prospect of NSI being able to implement an omnibus arrangement in the circumstances and within a reasonable amount of time.

21. To date, NSI has not completed a business arrangement or amalgamation or completed a sale of NSI or any of its assets.
22. Without a carrying broker or an alternative arrangement, as of December 31, 2012, NSI will be unable to carry out Dealer Member activities resulting in harm to its clients. There is a further risk of harm to any prospective clients and to the public if NSI is allowed to continue to operate and to hold itself out as a registered Dealer Member.
23. Dealer Member Rules 20.41, 20.42(1)(d), and 20.45.
24. Rule 16 of IIROC's Rules of Practice and Procedure.
25. Such further and other grounds as counsel may advise and the Hearing Panel may permit.

IIROC STAFF WILL RELY UPON THE FOLLOWING EVIDENCE:

1. Affidavit of Ciro Mirabella, Director, Financial and Operations Compliance with the Toronto office of IIROC, together with exhibits thereto, sworn December 10th, 2012;
2. Such further and other evidence as counsel may advise and the Hearing Panel may permit.

DATED at Toronto, Ontario, this 10th day of December, 2012.

JEFF KEHOE
VICE-PRESIDENT, ENFORCEMENT
INVESTMENT INDUSTRY REGULATORY ORGANIZATION OF CANADA
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