



Mutual Fund Dealers Association of Canada
Association canadienne des courtiers de fonds mutuels

**IN THE MATTER OF A SETTLEMENT HEARING
PURSUANT TO SECTION 24.4 OF BY-LAW NO. 1 OF
THE MUTUAL FUND DEALERS ASSOCIATION OF CANADA**

Re: Monarch Wealth Corporation

SETTLEMENT AGREEMENT

I. INTRODUCTION

1. By Notice of Settlement Hearing, the Mutual Fund Dealers Association of Canada (the “MFDA”) will announce that it proposes to hold a hearing to consider whether, pursuant to section 24.4 of By-law No. 1, a hearing panel of the Central Regional Council (the “Hearing Panel”) of the MFDA should accept the settlement agreement (the “Settlement Agreement”) entered into between Staff of the MFDA (“Staff”) and the Respondent, Monarch Wealth Corporation (the “Respondent”).

II. JOINT SETTLEMENT RECOMMENDATION

2. Staff conducted an investigation of the Respondent’s activities. The investigation disclosed that the Respondent had engaged in activity for which the Respondent could be penalized on the exercise of the discretion of the Hearing Panel pursuant to s. 24.1 of By-law No. 1.

3. Staff and the Respondent recommend settlement of the matters disclosed by the investigation in accordance with the terms and conditions set out below. The Respondent agrees to the settlement on the basis of the facts set out in Part IV herein and consents to the making of an Order in the form attached as Schedule “A”.

4. Staff and the Respondent agree that the terms of this Settlement Agreement, including the attached Schedule “A”, will be released to the public only if and when the Settlement Agreement is accepted by the Hearing Panel.

III. ACKNOWLEDGEMENT

5. Staff and the Respondent agree with the facts set out in Part IV herein for the purposes of this Settlement Agreement only and further agree that this agreement of facts is without prejudice to the Respondent or Staff in any other proceeding of any kind including, but without limiting the generality of the foregoing, any proceedings brought by the MFDA (subject to Part IX) or any civil or other proceedings which may be brought by any other person or agency, whether or not this Settlement Agreement is approved by the MFDA.

IV. AGREED FACTS

Registration History

6. The Respondent is registered as a mutual fund dealer in Ontario, British Columbia, Nova Scotia and Quebec, and as an exempt market dealer in Ontario.

7. The Respondent has been a Member of the MFDA since June 7, 2002.

Corporate Structure

8. The Respondent’s head office is located in Toronto, Ontario (the “Head Office”). The Respondent presently has one branch office in Mississauga, Ontario situated on City Centre Drive (the “City Centre Branch”).

9. At the time of the January 2009 Compliance Examination described below, the Respondent also had branch offices located on Brunel Road (the “Brunel Road Branch”) and on Village Centre Court (the “Village Centre Branch”). In January 2010, the Brunel Road Branch and the Village Centre Branch ceased to be branch offices of the Respondent and most of the Approved Persons that worked out of those branches are no longer Approved Persons of the Respondent.

Failure to Conduct Adequate Supervision of Leveraged Trades

10. Commencing on January 12, 2009, MFDA Compliance Staff conducted a third round compliance examination of the Respondent’s Head Office and the Branches (the “2009 Examination”) in order to assess the Respondent’s compliance with MFDA By-laws, Rules and Policies during the period July 1, 2006 to December 31, 2008.

11. The results of the 2009 Examination were summarized and delivered to the Respondent in a report dated June 16, 2009 (the “2009 Report”).

12. The 2009 Report identified compliance deficiencies, including the fact that the Respondent had established, implemented and maintained insufficient policies and procedures to supervise leveraged trades and to ensure the suitability of leveraging recommendations made by Approved Persons to clients.

Inadequate Supervision of Leverage Trades at the Branches

13. During the 2009 Examination, MFDA Compliance Staff determined that the Respondent’s Branch Office supervision of the suitability of leveraged trades and leveraging recommendations was deficient in that the Branch Managers or other supervisory staff in the Branches:

- (a) Failed to sign off on supervisory review documentation in some files. In particular, the former Branch Managers at the Brunel Road Branch and the Village Centre Branch failed to sign off on Leveraged Detail Worksheets (“Worksheets”) as required by the Respondent’s leveraging review procedures in some files. The Worksheets were forms

that were to be completed by Approved Persons for each leveraging trade and forwarded to the Branch Manager. The Branch Manager was to use the Worksheet to perform his or her suitability review and then sign off on the Worksheet to evidence their review and forward it to Head Office for second-tier suitability review;

(b) Failed to detect and query leveraging recommendations in some files that may or may not have been unsuitable in light of the client's documented KYC information as recorded on the client's New Client Application Form, Leveraged Detail Worksheet and loan application; and

(c) Failed, as a result of the conduct described in sub paragraph 13(b) above, to maintain records of suitability queries made, responses received from Approved Persons and resolutions achieved as a result of the supervisory inquiry.

Inadequate Head Office Supervision of Leveraged Trades

14. During the 2009 Examination, MFDA Compliance Staff determined that the Respondent's Head Office supervision of the suitability of leveraged trades and leveraging recommendations was deficient in that the Respondent's Head Office Compliance Staff:

(a) Failed to detect and query leveraged recommendations in some files that may or may not have been unsuitable in light of the client's documented KYC information as recorded on the clients' New Client Application Form, Leveraged Detail Worksheet and loan application.

(b) Failed, as a result of the conduct described in sub-paragraph 14(a) above to maintain records of suitability queries made, responses received from Approved Persons and resolutions achieved as a result of the supervisory inquiry.

15. As a result of the deficiencies by the Respondent as outlined in paragraphs 13 and 14 above, leveraging recommendations which may have been unsuitable were processed by the Respondent without proper supervision. Those leveraging recommendations have not been

subject to full supervisory scrutiny in accordance with the Respondent's policies and procedures that are in compliance with MFDA Rules and Policies.

Financial Compliance Deficiencies

16. During April 2010, MFDA Financial Compliance Staff conducted an annual financial examination of the Member covering the period February 2009 to February 2010 (the "2010 Financial Compliance Examination").

Transfer of Monies between the Respondent and its Parent Company

17. During the 2010 Financial Compliance Examination, MFDA Financial Compliance Staff identified that, in four of the months during the period under review, the Respondent had transferred monies from its operating bank account to a bank account operated by its parent company. The Respondent had then arranged for the monies to be transferred back from the parent company to the Respondent's operating bank account shortly before month end. Following month end, the Respondent had prepared and submitted its monthly Financial Questionnaire and Report ("FQR") to the MFDA in accordance with its financial reporting obligations under MFDA Rule 3.5.1. The monthly FQR, which reports a Member's RAC position as at month end (among other things) and is reviewed by MFDA Financial Compliance Staff, correctly reflected the Respondent's RAC position with the operating bank account balance at month end.

Failure to Maintain Adequate RAC Levels and to Notify Staff of Deficiencies

18. Immediately following the time the Respondent transferred the monies to its parent company the Respondent's RAC was less than zero, contrary to MFDA Rule 3.1.1. The following incidences of RAC deficiencies were identified by MFDA staff during the 2010 Financial Compliance Examination, which were caused by the Respondent transferring funds from its operating bank account to its parent company:

- a) June 1, 2009 following the transfer out of \$80,000;
- b) January 15, 2010 following the transfer out of \$175,000;
- c) February 1, 2010 following the transfer out of \$310,000; and

d) March 1, 2010 following the transfer out of \$300,000.

19. As at the periods identified in paragraph 18 above, the Respondent's RAC level was less than zero, which triggered a continuing requirement pursuant to MFDA Rule 3.1.2 for the Respondent to immediately notify the MFDA that its RAC level was less than zero, which the Respondent failed to do

Correcting Deficiencies in Policies and Procedures

20. The Respondent has revised its policies and procedures with regard to supervision of leveraging, and has provided a copy of those policies and procedures to MFDA Staff. The Respondent represents that it has implemented those revised policies and procedures. The Respondent (hereby) undertakes to comply with those policies and procedures in the future.

Addressing Historical Leveraging

21. The Respondent has developed a plan, which has been reviewed by MFDA Staff, to address existing leveraged accounts (the "Leveraged Review Action Plan"). The Respondent represents that it will fully carry out the terms of the Leveraged Review Action Plan to the satisfaction of MFDA Staff. The Respondent may be subject to further disciplinary action should it fail to adequately implement the Leveraged Review Action Plan.

V. CONTRAVENTIONS

22. The Respondent admits that between July 1, 2006 to December 31, 2008, it had established, implemented and maintained insufficient policies and procedures to supervise leveraged trades and ensure the suitability of leveraging recommendations made by Approved Persons to clients, contrary to MFDA Rules 2.2.1, 2.5, and 2.10 and MFDA Policy No. 2.

23. The Respondent admits that between July 1, 2006 to December 31, 2008, it did not maintain sufficient records of the supervision of leveraged trading that was conducted by its Approved Persons, including records of trades reviewed, inquiries made, responses received and resolutions achieved, contrary to MFDA Rules 2.2.1 and 2.5 and MFDA Policy No. 2.

24. The Respondent admits that it did not maintain its RAC level above zero following the transfer of funds from its operating bank account to a bank account operated by its parent company on: (1) June 1, 2009; (2) January 15, 2010; (3) February 1, 2010; and (4) March 1, 2010, contrary to MFDA Rule 3.1.1.

25. The Respondent admits that between January 2009 and March 2010 it did not immediately notify the MFDA that its RAC level became less than zero on four occasions, contrary to MFDA Rule 3.1.2.

VI. TERMS OF SETTLEMENT

26. The Respondent agrees to the following terms of settlement:

- (a) the Respondent shall pay a fine in the amount of \$60,000 upon the acceptance of this Settlement Agreement pursuant to s.24.1.2(b) of MFDA By-Law No. 1;
- (b) the Respondent shall pay the costs of this proceeding in the amount of \$2,500 upon the acceptance of this settlement, pursuant to s.24.2 of MFDA By-Law No. 1;
- (c) in accordance with s. 24.4.2 of the By-law, the Respondent agrees that in the future, the Respondent shall comply with all MFDA By-laws, Rules and Policies, and all applicable securities legislation and regulations made thereunder, including, MFDA Rules 2.2.1, 2.5, 2.10, 3.1.1, 3.1.2, and MFDA Policy No. 2; and
- (d) a senior officer of the Respondent will attend the settlement hearing in person.

VII. STAFF COMMITMENT

27. If this Settlement Agreement is accepted by the Hearing Panel, Staff will not initiate any proceeding under the By-laws of the MFDA against the Respondent or any of its officers or directors in respect of the facts set out in Part IV and the contraventions described in Part V of this Settlement Agreement, subject to the provisions of Part IX below. Nothing in this Settlement Agreement precludes Staff from investigating or initiating proceedings in respect of any facts and contraventions that are not set out in Parts IV and V of this Settlement Agreement or in respect of conduct that occurred outside the specified date ranges of the contraventions set out in Part V, whether known or unknown at the time of settlement. Further, nothing in this settlement

precludes Staff from investigating or initiating proceedings against the Respondent or any of its Approved Persons if it is later determined that Monarch supervisory staff knew or was willfully blind to the fact that false documentation was being used to process unsuitable leveraging transactions. Lastly, nothing in this Settlement Agreement shall relieve the Respondent from fulfilling any continuing regulatory obligations, including, for greater certainty, any obligations regarding the handling of client complaints arising out of the facts and contraventions set out in Parts IV and V.

VIII. PROCEDURE FOR APPROVAL OF SETTLEMENT

28. Acceptance of this Settlement Agreement shall be sought at a hearing of the Central Regional Council of the MFDA on a date agreed to by counsel for Staff and the Respondent.

29. Staff and the Respondent may refer to any part, or all, of the Settlement Agreement at the settlement hearing. Staff and the Respondent also agree that if this Settlement Agreement is accepted by the Hearing Panel, it will constitute the entirety of the evidence to be submitted respecting the Respondent in this matter, and the Respondent agrees to waive its rights to a full hearing, a review hearing before the Board of Directors of the MFDA or any securities commission with jurisdiction in the matter under its enabling legislation, or a judicial review or appeal of the matter before any court of competent jurisdiction.

30. Staff and the Respondent agree that if this Settlement Agreement is accepted by the Hearing Panel, then the Respondent shall be deemed to have been penalized by the Hearing Panel pursuant to s. 24.1.2 of By-law No. 1 for the purpose of giving notice to the public thereof in accordance with s. 24.5 of By-law No. 1.

31. Staff and the Respondent agree that if this Settlement Agreement is accepted by the Hearing Panel, neither Staff nor the Respondent will make any public statement inconsistent with this Settlement Agreement. Nothing in this section is intended to restrict the Respondent from making full answer and defence to any civil or other proceedings against it.

IX. FAILURE TO HONOUR SETTLEMENT AGREEMENT

32. If this Settlement Agreement is accepted by the Hearing Panel and, at any subsequent

time, the Respondent fails to comply with any of the terms of the Settlement Agreement, Staff reserves the right to bring proceedings under the By-laws of the MFDA against the Respondent and any of its officers or directors based on, but not limited to, the facts set out in Part IV of the Settlement Agreement, as well as the breach of the Settlement Agreement. If such additional enforcement is taken, the Respondent agrees that the proceeding(s) may be heard and determined by a hearing panel comprised of all or some of the same members of the hearing panel that accepted the Settlement Agreement, if available.

X. NON-ACCEPTANCE OF SETTLEMENT AGREEMENT

33. If, for any reason whatsoever, this Settlement Agreement is not accepted by the Hearing Panel or an Order in the form attached as Schedule “A” is not made by the Hearing Panel, each of Staff and the Respondent will be entitled to any available proceedings, remedies and challenges, including proceeding to a disciplinary hearing pursuant to sections 20 and 24 of By-law No. 1, unaffected by this Settlement Agreement or the settlement negotiations.

34. Whether or not, this Settlement Agreement is accepted by the Hearing Panel, the Respondent agrees that it will not, in any proceeding, refer to or rely upon this Settlement Agreement or the negotiation or process of approval of this Settlement Agreement as the basis for any allegation against the MFDA of lack of jurisdiction, bias, appearance of bias, unfairness, or any other remedy or challenge that may otherwise be available unless the proceeding concerns an allegation by the Respondent that there has been a contravention of Staff’s Commitment as set out in paragraph 27 of this Settlement Agreement.

XI. DISCLOSURE OF AGREEMENT

35. The terms of this Settlement Agreement will be treated as confidential by the parties hereto until accepted by the Hearing Panel, and forever if, for any reason whatsoever, this Settlement Agreement is not accepted by the Hearing Panel, except with the written consent of both the Respondent and Staff or as may be required by law.

36. Any obligations of confidentiality shall terminate upon acceptance of this Settlement Agreement by the Hearing Panel.

XII. EXECUTION OF SETTLEMENT AGREEMENT

37. This Settlement Agreement may be signed in one or more counterparts, which together, shall constitute a binding agreement.

38. A facsimile copy of any signature shall be effective as an original signature.

Dated: December 12, 2011

“Zhou Szyi”

Witness- Signature

Zhou Szyi

Witness – Print Name

“David Hunter”

Monarch Wealth Corporation
Per: David Hunter, COO, CFO

“Shaun Devlin”

Staff of the MFDA
Per: Shaun Devlin
Vice-President, Enforcement



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Re: Monarch Wealth Corporation

ORDER

WHEREAS on December 14, 2011, the Mutual Fund Dealers Association of Canada (the "MFDA") issued a Notice of Settlement Hearing pursuant to section 24.4 of By-law No. 1 in respect of Monarch Wealth Corporation (the "Respondent");

AND WHEREAS the Respondent entered into a settlement agreement with Staff of the MFDA, dated December 12, 2011 (the "Settlement Agreement"), in which the Respondent agreed to a proposed settlement of matters for which the Respondent could be disciplined pursuant to ss. 20 and 24.1 of By-law No. 1;

AND WHEREAS the Hearing Panel is of the opinion that the Respondent has failed to comply with or carry out the provisions of MFDA Rules to the extent described in the agreed facts and contraventions admitted in Parts IV and V of the Settlement Agreement.

IT IS HEREBY ORDERED THAT the Settlement Agreement is accepted, as a consequence of which:

1. The Respondent shall pay a fine in the amount of \$60,000 upon the acceptance of this Settlement Agreement, pursuant to s.24.1.2(b) of MFDA By-Law No. 1;

2. The Respondent shall pay the costs of this proceeding in the amount of \$2,500 upon the acceptance of this Settlement Agreement, pursuant to s.24.2 of MFDA By-Law No. 1;

3. If at any time a non-party to this proceeding requests production of, or access to, any materials filed in, or the record of, this proceeding, including all exhibits and transcripts, then the MFDA Corporate Secretary shall not provide copies of, or access to, the requested documents to the non-party without first redacting from them any and all intimate financial or personal information, pursuant to Rules 1.8(2) and (5) of the MFDA *Rules of Procedure*.

DATED this [day] day of [month], 20[].

Per: _____
[Name of Public Representative], Chair

Per: _____
[Name of Industry Representative]

Per: _____
[Name of Industry Representative]