

2018 ANNUAL ENFORCEMENT REPORT



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

CONTENTS

- 3 MESSAGE FROM THE PRESIDENT & CEO**
- 4 ABOUT US**
Enforcement Process
- 6 STATISTICS**
- 11 NEW DEVELOPMENTS**
Evidence Gathering Powers
Statutory Immunity
Sanction Guidelines
Fine Collection
- 12 KEY ENFORCEMENT ACTIVITY**
Sales Incentives Practices
Reasonable Supervisory Investigation
Concentration and KYC Uniformity
Branch Reviews
- 14 CASE HIGHLIGHTS MEMBER CASES**
- 16 CASE HIGHLIGHTS APPROVED
PERSON CASES**
- 18 HEARINGS CONCLUDED BY
TYPE OF PRIMARY ALLEGATION**
- 21 GLOSSARY**
- 23 RESOURCES**



MESSAGE FROM THE PRESIDENT & CEO

I am pleased to present the 2018 Annual Enforcement Report which highlights key enforcement activity over the course of 2018.

The MFDA continues to focus on protecting Canadian investors through the enforcement of the MFDA's By-laws, Rules and Policies and applicable securities legislation. In 2018, the MFDA commenced 136 enforcement proceedings, which is the highest number of proceedings commenced by the MFDA in any year. Part of this increase is due to the supervisory efforts of Members which have resulted in enhanced detection and reporting of MFDA rule breaches. This clearly demonstrates both the MFDA's and its Members' commitment to investor protection, as well as the benefits of a regulatory approach that focuses on Member education and collaboration.

As part of our investor protection mandate the MFDA works to ensure that investors receive suitable advice, and enforcing the suitability standard remains a priority for the MFDA. To this end, 2018 saw an emphasis on prosecuting cases involving both unsuitable concentration of assets and issues regarding KYC uniformity across an advisor's client base. These issues both represent significant breakdowns in the proper application of the suitability standard and the MFDA completed five cases relating to these issues in 2018, some of which are summarized in the case highlights section of this report. I would like to encourage all readers to review these case summaries which illustrate the significant consequences for dealers and advisors who fail to meet their suitability obligations.

Effective self-regulation requires Members to effectively supervise the activities of their advisors. This is why the enforcement department works proactively with Members to confirm that supervisory obligations are carried out in instances where there is a potential breach of applicable regulatory requirements by advisors. Where significant supervisory deficiencies are identified formal or informal enforcement action is taken. In 2018, 11 proceedings

we will continue to work together with our Members to support innovations that help achieve positive outcomes for Canadian investors



were concluded against Members and supervisors for failures to properly carry out supervisory obligations.

The MFDA remains committed to working with our Members to find ways to further the protection of vulnerable Canadian investors such as seniors, persons with diminished capacity and individuals who are subject to undue influence. In 2019 the MFDA will be hosting its third Seniors Summit to further provide Members with practical guidance related to best protecting the interests of these vulnerable clients.

Going forward we will continue to work together with our Members to support innovations that help achieve positive outcomes for Canadian investors while continuing to rigorously enforce MFDA rules relating to both advisor and dealer obligations.

Finally I would like to thank all MFDA management and staff for their hard work and dedication. As an SRO responsible for regulating the distribution of mutual funds, which are the most widely held investment product by retail investors, there is no doubt that our collective efforts have had a large impact on enhancing investor protection across Canada.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Mark T. Gordon'.

Mark T. Gordon, LL.B.
President and CEO

ABOUT US

MUTUAL FUND DEALERS ASSOCIATION OF CANADA

The Mutual Fund Dealers Association of Canada ("MFDA") is the national self-regulatory organization ("SRO") for distribution side of the Canadian mutual fund industry. The MFDA is structured as a not-for-profit corporation and its Members are mutual fund dealers that are licensed with provincial securities commissions.

The MFDA is formally recognized as a self-regulatory organization by the provincial securities commissions in Alberta, British Columbia, Manitoba, New Brunswick, Nova Scotia, Ontario, Prince Edward Island and Saskatchewan. The MFDA has also entered into a Co-operative Agreement with the Autorité des marchés financiers and actively participates in the regulation of mutual fund dealers in Quebec.

As an SRO, the MFDA is responsible for regulating the operations, standards of practice and business conduct of its Members and their representatives with a view to enhancing investor protection and strengthening public confidence in the Canadian mutual fund industry. As of December 31, 2018, the MFDA has 90 Members. These Members represent approximately \$707 billion of assets under administration. MFDA Members are registered in every province and territory of Canada and service approximately 9 million households.

ENFORCEMENT DEPARTMENT

The Enforcement Department investigates situations where our Members and their Approved Persons may have breached MFDA requirements. The Enforcement Department operates on several general principles:

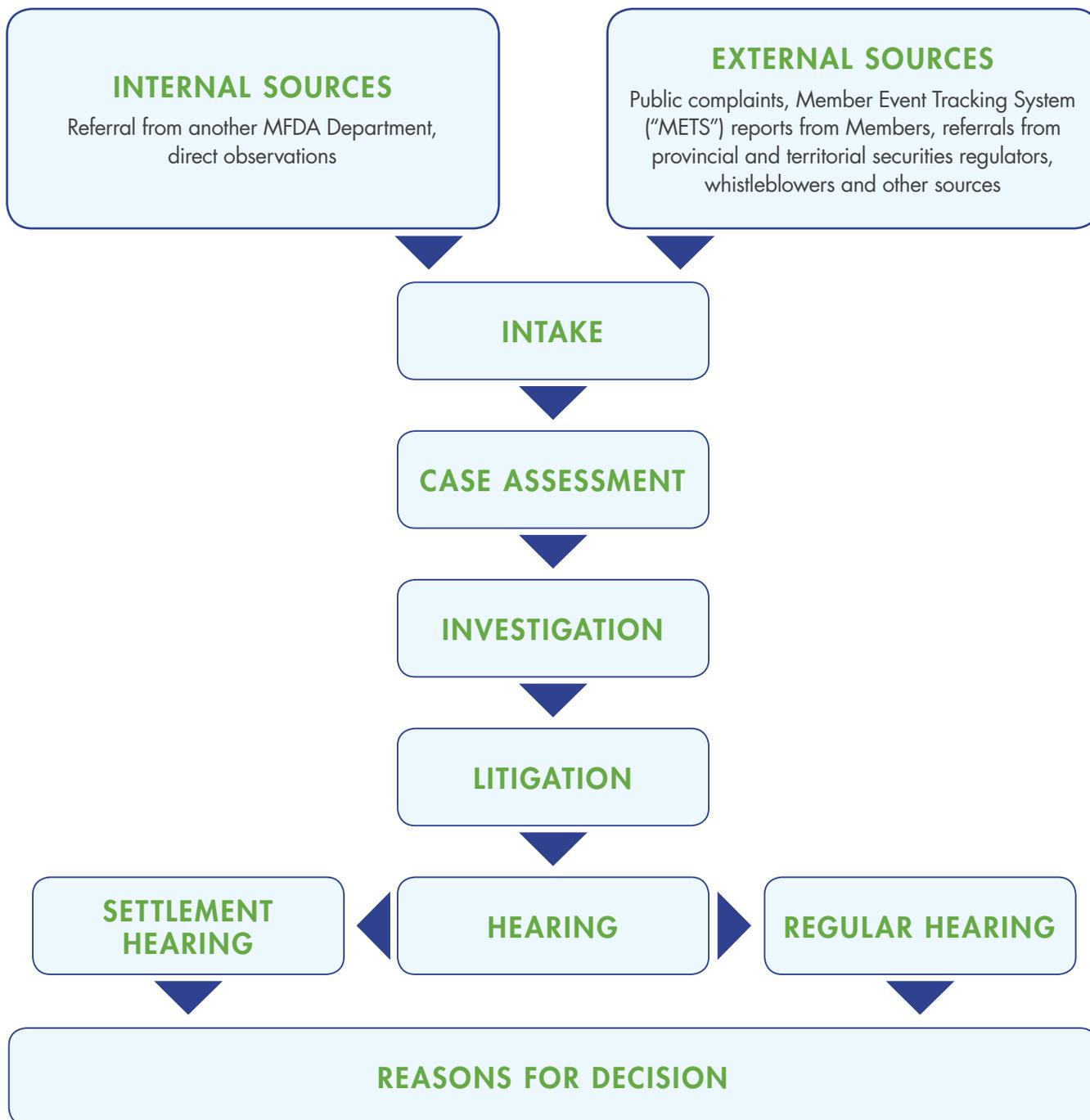
- The Enforcement Department considers general and specific deterrence in its decision making.
- Members and Approved Persons are provided opportunity for input before a decision is made on disciplinary action, except in urgent cases involving potential public harm.
- Member supervision of Approved Persons is reviewed in all cases.
- The fairness and promptness of a Member's complaint handling is reviewed in all cases involving an investor complaint.
- Cases are reviewed proactively, with a view to identifying possible associated misconduct and assessing root causes.
- The Enforcement Department works on a cooperative basis with:
 - other regulatory agencies and law enforcement organizations.
 - MFDA Compliance and Policy Departments and refers cases and issues to these departments where appropriate.

The Enforcement Department has four main functions:

- 1 Intake
- 2 Case Assessment
- 3 Investigations
- 4 Litigation

Case screening occurs throughout the enforcement process and cases may be closed at any stage of the enforcement process. Screening factors include the seriousness of the alleged misconduct, whether the alleged misconduct resulted in significant losses or harm to investors, and whether the victim is part of a vulnerable or priority group. The screening factors include many of the same considerations in the MFDA's Sanction Guidelines.

ENFORCEMENT PROCESS



Note: Provincial securities legislation allow Respondents and in many cases MFDA Staff to appeal a decision of an MFDA Hearing Panel to the applicable securities regulator.

STATISTICS

TABLE 1: OVERVIEW OF ENFORCEMENT DEPARTMENT ACTIVITY (2016-2018)

The table below summarizes overall activity for the Enforcement Department.

| | 2016 | 2017 | 2018 |
|-----------------------|------|------|------|
| CASES OPENED | 446 | 469 | 458 |
| CASES CLOSED | 450 | 438 | 535 |
| WARNING LETTERS | 120 | 111 | 127 |
| CAUTIONARY LETTERS | 86 | 73 | 114 |
| PROCEEDINGS COMMENCED | 111 | 121 | 136 |

Warning letters are issued in circumstances where the violation is one that the MFDA could have escalated to a formal disciplinary hearing, but has chosen not to due to screening factors. Cautionary letters are issued when the violation is minor or less serious in nature and one that the MFDA would not generally escalate to a formal disciplinary hearing. While Cautionary Letters are disciplinary in nature, they are often issued for educational purposes.

TABLE 2: CASES OPENED AT CASE ASSESSMENT BY SOURCE (2016-2018)

| SOURCE | NUMBER | | |
|---------------------------------|------------|------------|------------|
| | 2016 | 2017 | 2018 |
| METS | 246 | 310 | 296 |
| PUBLIC | 145 | 119 | 127 |
| CSA AND OTHER REGULATORIES | 15 | 1 | 11 |
| MFDA COMPLIANCE | 26 | 16 | 8 |
| FINANCIAL INDUSTRY PARTICIPANT* | N/A | 4 | 6 |
| WHISTLEBLOWER | 4 | 5 | 4 |
| MEMBER | 9 | 2 | 3 |
| OTHER | N/A | 2 | 3 |
| MEDIA | 1 | N/A | N/A |
| TOTAL | 446 | 469 | 458 |

*an individual who works in the Financial Industry.

TABLE 3: PRIMARY ALLEGATIONS MADE IN CASES OPENED AT CASE ASSESSMENT (2016-2018)

The table below lists the primary allegation made in cases opened at the Case Assessment stage.

| NATURE OF PRIMARY ALLEGATION | NUMBER OF PRIMARY ALLEGATIONS | | |
|---|-------------------------------|------------|------------|
| | 2016 | 2017 | 2018 |
| PRE-SIGNED FORMS | 104 | 90 | 71 |
| COMMISSIONS AND FEES | 17 | 23 | 48 |
| SUITABILITY – INVESTMENTS | 43 | 48 | 43 |
| BUSINESS STANDARDS | 26 | 32 | 38 |
| UNAUTHORIZED / DISCRETIONARY TRADING | 20 | 23 | 27 |
| COMPLAINT PROCEDURE | 19 | 19 | 24 |
| POLICY & PROCEDURES | 14 | 19 | 23 |
| SUPERVISION | 18 | 13 | 22 |
| CONFLICT OF INTEREST | 7 | 17 | 19 |
| PERSONAL FINANCIAL DEALINGS | 18 | 16 | 19 |
| FORGERY / FRAUD / THEFT / MISAPPROPRIATION / MISAPPLICATION | 7 | 10 | 15 |
| ACTIVE SIGNATURE FALSIFICATION | 26 | 29 | 13 |
| CONFIDENTIALITY / PRIVACY | 4 | 1 | 11 |
| ACTING OUTSIDE REGISTRATION STATUS | 7 | 13 | 11 |
| SUITABILITY - LEVERAGING | 27 | 18 | 10 |
| FALSIFICATION / MISREPRESENTATION | 10 | 21 | 9 |
| OUTSIDE ACTIVITY | 8 | 26 | 8 |
| KNOW YOUR PRODUCT | 1 | 3 | 7 |
| REPORTING VIOLATIONS | 3 | 5 | 6 |
| STEALTH ADVISING | 2 | 2 | 6 |
| TRANSFER OF ACCOUNTS | 21 | 10 | 6 |
| KYC DOCUMENTATION DEFICIENCY | 3 | 2 | 6 |
| OTHER | 41 | 29 | 16 |
| TOTAL NUMBER OF PRIMARY ALLEGATIONS | 446 | 469 | 458 |

TABLE 4: ENFORCEMENT PROCEEDINGS (2014-2018)

The table below shows the total number of formal enforcement proceedings commenced in the last five years. It also shows for each year how many of those proceedings were commenced utilizing the bulk track process that provides for a more efficient process in cases where a violation of MFDA requirements is not disputed by the Respondent.

The increase in hearings is due primarily to an increase in signature cases detected and reported by Members.¹

| YEAR | PROCEEDINGS COMMENCED | BULK TRACK CASES |
|------|-----------------------|------------------|
| 2018 | 136 | 70 |
| 2017 | 121 | 75 |
| 2016 | 111 | 52 |
| 2015 | 69 | 36 |
| 2014 | 48 | 10 |

MEMBER CASES

| YEAR | PROCEEDINGS COMMENCED |
|------|-----------------------|
| 2018 | 9 |
| 2017 | 5 |
| 2016 | 11 |
| 2015 | 4 |
| 2014 | 3 |

¹ As noted in Table 3, the number of intake signature cases decreased in 2018 which will be reflected in a decrease in the number of proceedings in the future.

TABLE 5: PROCEEDINGS COMMENCED (2018) – ALL ALLEGATIONS

The MFDA commenced 136 proceedings in 2018 by Notice of Hearing or Notice of Settlement Hearing. Many of the proceedings involved more than one alleged violation of MFDA Rules, By-laws or Policies.

| NATURE OF ALLEGATION | NUMBER OF ALLEGATIONS AGAINST APPROVED PERSONS | NUMBER OF ALLEGATIONS AGAINST MEMBERS |
|---|--|---------------------------------------|
| PRE-SIGNED FORMS | 74 | - |
| POLICY & PROCEDURES | 45 | 1 |
| ACTIVE SIGNATURE FALSIFICATION | 27 | - |
| FALSIFICATION / MISREPRESENTATION | 18 | - |
| FAILURE TO COOPERATE | 17 | - |
| UNAUTHORIZED/DISCRETIONARY TRADING | 16 | - |
| CONDUCT UNBECOMING | 14 | - |
| SUPERVISION | 4 | 9 |
| BUSINESS STANDARDS | 12 | - |
| CONFLICT OF INTEREST | 11 | - |
| OUTSIDE ACTIVITY | 11 | - |
| PERSONAL FINANCIAL DEALINGS | 10 | - |
| ACTING OUTSIDE REGISTRATION STATUS | 8 | - |
| REFERRAL ARRANGEMENTS | 8 | - |
| SUITABILITY - INVESTMENTS | 7 | - |
| COMMISSIONS AND FEES | 5 | - |
| KYC DOCUMENTATION DEFICIENCY | 5 | - |
| REPORTING VIOLATIONS | 4 | - |
| FORGERY / FRAUD / THEFT/ MISAPPROPRIATION / MISAPPLICATION | 3 | - |
| SALES COMMUNICATION | 2 | - |
| SUITABILITY - LEVERAGING | 1 | 1 |
| BOOKS / RECORDS / CLIENT REPORTING | 1 | - |
| COMPLAINT PROCEDURES | 1 | - |
| DISCLOSURE | 1 | - |
| KNOW YOUR PRODUCT | 1 | - |
| STEALTH ADVISING | 1 | - |
| SUB-TOTAL | 307 | 11 |
| TOTAL | | 318 |

TABLE 6: PROCEEDINGS CONCLUDED (2016-2018) – TYPE OF PENALTY

In 2018, the Enforcement Department concluded 132 hearings. In those 132 hearings, MFDA Hearing Panels imposed fines of \$6,080,031 of which \$2,942,096 has been collected. Since the commencement of MFDA disciplinary activity in 2004, MFDA Hearing Panels have imposed total fines of \$88,147,242 of which \$12,186,233 (approximately 14%) has been collected.

MFDA By-laws provide the power to collect fines from Respondents who remain as Members or Approved Persons and we collect all such fines.

Under provincial statutes in Alberta, Ontario and Prince Edward Island, the MFDA has the power to collect fines from former Respondents who have left the industry. In 2018, the MFDA was also given collection powers in Manitoba, British Columbia and Nova Scotia. MFDA Staff makes all reasonable efforts to collect any outstanding fines from former Respondents in provinces where we have collection powers. However, successful collection of outstanding fines using these powers depends on several factors including but not limited to the availability of assets to collect against and the Respondent's status with respect to any bankruptcy or similar proceedings.

The table below shows the penalties imposed against Members and Approved Persons by Hearing Panels in hearings concluded between 2016-2018.

| TYPE OF PENALTY | 2016 | 2017 | 2018 |
|--------------------------------|---------------------|--------------------|--------------------|
| PERMANENT PROHIBITION | 22 | 22 | 19 |
| SUSPENSION | 26 | 48 | 41 |
| EDUCATIONAL COURSE REQUIREMENT | 5 | 13 | 5 |
| REPRIMAND | - | 1 | - |
| TERMS AND CONDITIONS | - | 1 | - |
| TOTAL FINES | \$21,104,750 | \$8,498,250 | \$6,080,031 |
| TOTAL COSTS | \$496,000 | \$536,500 | \$592,000 |

TABLE 7: HEARINGS CONCLUDED (2016-2018) – TYPE OF HEARING

| TYPE OF HEARING | 2016 | 2017 | 2018 |
|---------------------------------|-----------|------------|------------|
| CONTESTED/UNCONTESTED HEARING | 34 | 22 | 34 |
| SETTLEMENT HEARING | 51 | 111 | 98 |
| TOTAL NUMBER OF HEARINGS | 85 | 133 | 132 |

NEW DEVELOPMENTS



EVIDENCE GATHERING POWERS

In 2018, the MFDA was granted expanded legislative powers in three provinces to compel evidence and cooperation from non-registrants. While the MFDA has always worked collaboratively with provincial securities authorities to gather evidence from non-registrants, the new legislative provisions enhance the MFDA's evidence gathering abilities from non-registrants and should provide for a further streamlined process for MFDA Enforcement in such circumstances.



STATUTORY IMMUNITY

In 2018, the governments of Prince Edward Island, Nova Scotia and Manitoba passed legislation to protect the MFDA from civil law suits relating to the exercise in good faith of its duties and powers. These protections assist the MFDA to effectively continue to carry out its investor protection mandate. Similar protection was granted to the MFDA in Alberta in 2017.



SANCTION GUIDELINES

The MFDA Sanction Guidelines came into effect in November 2018, replacing the MFDA Penalty Guidelines that have been in place since 2006. The changes reflect industry trends toward a principles-based approach to sanctioning.

The MFDA Sanction Guidelines have been prepared to assist MFDA Staff and Respondents in conducting disciplinary proceedings and in negotiating settlement agreements. They are also intended to promote consistency, fairness and transparency by providing a framework to guide a Hearing Panel's exercise of discretion in determining sanctions in MFDA disciplinary proceedings. Part I of the MFDA Sanction Guidelines sets out the key factors that are to be taken into consideration with respect to decisions on sanctions in all MFDA disciplinary cases, and Part II outlines the various types of sanctions that may be imposed by a Hearing Panel pursuant to Section 24 of MFDA By-law No. 1. The MFDA Sanction Guidelines are not binding on Hearing Panels, and the determination of the appropriate sanction depends on the facts of a particular case and the circumstances of the conduct.



FINE COLLECTION

In 2018, additional provinces gave the MFDA fine collection powers under provincial legislation. For additional details, please refer to page 9.

KEY ENFORCEMENT ACTIVITY



SALES INCENTIVES PRACTICES

The Enforcement Department continues to investigate sales incentives practices at Members that may impact the sale of products to clients, that could potentially give rise to conflicts of interest, and that may not comply with the requirements set out in National Instrument 81-105. These programs were identified, in part, through the Targeted Review of Member Compensation and Incentive Programs project conducted in collaboration with various provincial securities regulators and the Investment Industry Regulatory Organization of Canada (see Bulletin #0705-C).

In 2017, the MFDA conducted a proceeding against a Member for, among other things, failing to establish and maintain an adequate system of controls and supervision to ensure that it complied with securities legislation relating to internal dealer sales incentives practices. The MFDA expects to commence further proceedings in 2019 in respect of Member sales incentive practices.

In addition to addressing sales incentives practices at the Member level, the MFDA identified practices by Approved Persons which may have impacted the sale of products to clients and created potential conflicts of interest. In one case, an MFDA Hearing Panel accepted a settlement with an Approved Person who admitted that he processed transactions in client accounts as redemptions and purchases, rather than as switches, to ensure the transactions counted towards his dealer's sales targets. In another case, an MFDA Hearing Panel approved an Agreed Statement of Facts in which an Approved Person admitted that he had loaned monies to a relative to purchase mutual funds to help the Approved Person qualify for a bonus through his dealer's branch incentive program. These cases are summarized in the Case Highlights section of this report



REASONABLE SUPERVISORY INVESTIGATION

MFDA Policy No. 3 clarifies that Members are responsible for conducting a reasonable supervisory investigation ("RSI"). Members must monitor, through supervisory personnel, information that they receive regarding potential breaches of applicable requirements on the part of the Member and their current and former Approved Persons that raise the possibility of risk to Member clients or other investors. This applies to information received from both internal and external sources. For example, such information may come from client complaints, be identified during the Member's routine supervisory activity, or come from other Approved Persons of the Member or individuals outside the Member who are not clients.

Members must take reasonable supervisory action in relation to such information, the extent of which will in part depend on the severity of the allegation and the complexity of the issues. In all cases, Members must track such information and note trends in risk, including those related to specific Approved Persons or branches, subject matter, product types, procedures and cases, and take necessary action in response to those trends, as appropriate. Members must conduct both a factual investigation and an analysis that are reasonable in the circumstances, using a balanced approach. In all cases, the MFDA reviews whether an adequate RSI was completed. In 2018, the MFDA took enforcement action in two cases against Members for inadequate RSI.



CONCENTRATION AND KYC UNIFORMITY

The MFDA is continuing its efforts to address concentration and KYC uniformity. Accounts that are concentrated in a single investment or sector can be subject to greater volatility and pose greater risk than those that are well diversified. Members should, as part of the supervisory process, identify and assess concentration risk in exempt securities and in certain higher risk sector mutual funds such as precious metals and resource funds.

In addition, the MFDA has identified in some cases involving concentration in exempt securities and higher risk sector funds that Approved Persons have engaged in a practice of recording uniform KYC information for clients to fit their investment recommendations, as well as misrepresenting or failing to adequately explain the risks and benefits of the investments. Members should have supervisory processes to identify uniformity of KYC issues in client accounts, and ensure that supervisory inquiries are made when uniform KYC information is detected and appropriate action is taken to address the issues.

In 2018, the MFDA completed five cases against Members and Approved Persons relating to concentration and KYC uniformity. Some of these cases are summarized in the Case Highlights section of this report.



BRANCH REVIEWS

The MFDA completed three Member cases in 2018 involving a failure to conduct branch reviews within the 3 year period prescribed in MFDA Policy No. 5. The failure to conduct reviews of branch and sub-branch locations in a timely manner can result in situations where activities at locations are either not subject to supervision or are inadequately supervised. This has the potential to result in cases where serious misconduct which may impact clients remains undetected by a Member firm.

The MFDA will continue to review and, where appropriate, take disciplinary action to address cases where Members do not conduct branch and sub-branch reviews in accordance with MFDA Policy No. 5.



CASE HIGHLIGHTS

MEMBER CASES

1 SENTINEL FINANCIAL MANAGEMENT CORP.

Reasons for Decision: September 14, 2018

In a Settlement Agreement, Sentinel admitted that it failed to conduct adequate trade supervision to ensure trade recommendations were suitable for clients, and failed to perform supervisory inquiries and maintain adequate records of its trade supervision. Among other things, Sentinel failed to perform adequate supervisory queries with respect to exempt products, including failing to query client accounts which held exempt market products that were inconsistent with the clients' documented Know-Your-Client information. In addition, the Respondent admitted that it failed to properly supervise two Approved Persons who were under close supervision, and failed to conduct sub-branch reviews.

The Hearing Panel accepted the Settlement Agreement and imposed a fine of \$75,000 and costs of \$10,000.

2 EQUITY ASSOCIATES INC.

Reasons for Decision: August 22, 2018

In a Settlement Agreement, Equity admitted that it failed to adequately supervise and maintain records of supervision at its head office and sub-branch levels, failed to establish and implement adequate policies and procedures, failed to maintain adequate compliance resources, and failed to conduct a reasonable investigation into the conduct of two of its Approved Persons.

In particular, Equity failed to maintain proper records for daily trade supervision, approvals of new accounts and approvals of amendments to Know-Your-Client information and inadequately supervised leveraging and suitability recommendations from Approved Persons. In addition, Equity failed to maintain proper policies and procedures relating to trend analysis reports and failed to maintain adequate compliance resources. Equity also failed to conduct timely and adequate supervisory investigations of Approved Persons despite becoming aware that one of its Approved Persons was the subject of criminal charges relating to fraud, and a second Approved Person had investment suitability and portfolio concentration issues in client accounts he serviced.

The Hearing Panel accepted the Settlement Agreement and imposed a fine of \$125,000 and costs of \$20,000.

3 BANWELL FINANCIAL INC.

Reasons for Decision: October 25, 2018

In a Settlement Agreement, Banwell admitted that it failed to supervise the outside activities of one of its Approved Persons and allowed an unregistered individual to engage in registerable activity.

Banwell approved an Approved Person's syndicated mortgage activities without conducting adequate inquiries into the nature and scope of the business activity. Banwell approved this activity despite MFDA Bulletins stating that all syndicated mortgages sold or referred by Approved Persons must be facilitated through the accounts and facilities of the Member. In addition, Banwell issued a representative code to an individual and allowed him to process a trade for a client, notwithstanding that his application for registration with the Member had not been approved by the Ontario Securities Commission. Banwell also issued quarterly portfolio statements to the individual's clients stating that the individual was responsible for servicing their accounts.

The Hearing Panel accepted the Settlement Agreement and imposed a fine of \$30,000 and costs of \$10,000.

4 EXCEL PRIVATE WEALTH INC.

Reasons for Decision: November 5, 2018

In a Settlement Agreement, Excel admitted that it failed to conduct due diligence on one of its Approved Person's outside activities and failed to maintain a proper tier two supervision structure. Specifically, Excel failed to review a syndicated mortgage referral arrangement involving one of its Approved Persons, despite MFDA Bulletins stating that all syndicated mortgages sold or referred by Approved Persons must be facilitated through the accounts and facilities of the Member. Excel also failed to conduct tier two supervision of its Approved Persons.

The Hearing Panel accepted the Settlement Agreement and imposed a fine of \$40,000 and costs of \$7,500.

5 GLOBAL MAXFIN INVESTMENTS INC.

Reasons for Decision: November 12, 2018

In a Settlement Agreement, Global Maxfin admitted that, over a four year period, it failed to establish, implement and maintain adequate internal controls to supervise the activities of an Approved Person to detect and prevent unusual trading patterns such as excessive trading and market timing, or maintain adequate records of its trade supervision. Although Global Maxfin informed the Approved Person that it had concerns with respect to his conduct, it did not monitor or adequately query his trading activities or take sufficient steps to curtail excessive trading or market timing. In addition, Global Maxin failed to conduct a reasonable supervisory investigation of the Approved Person's activities after becoming aware that he maintained and used pre-signed client forms.

The Hearing Panel accepted the Settlement Agreement and imposed a fine of \$35,000 and costs of \$10,000.

6 INVESTIA FINANCIAL SERVICES INC.

Reasons for Decision: January 22, 2019

Investia amalgamated with HollisWealth Advisory Services Inc. Prior to the amalgamation, HollisWealth implemented a supervisory system to supervise at least 24 branches remotely. In a Settlement Agreement, the Member admitted that it failed to obtain pre-approval from MFDA Staff for this remote branch supervision structure as it was required to do. As part of the regulatory approval for the amalgamation, Investia obtained MFDA approval on July 14, 2017 to implement a remote branch supervision structure which was, in Staff's view, materially different than the structure proposed by HollisWealth.

The Hearing Panel accepted the Settlement Agreement and imposed a fine of \$100,000 and costs of \$10,000.

7 OLYMPIAN FINANCIAL INC.

Reasons for Decision: October 31, 2018

In a Settlement Agreement, Olympian admitted that it failed to conduct on-site compliance reviews of every sub-branch location at least once every three years as required by MFDA Policy 5. The Hearing Panel held that Olympian's actions reflected repeat and continued supervisory lapses which had the potential to result in significant client harm.

The Hearing Panel accepted the Settlement Agreement and imposed a fine of \$25,000 and costs of \$5,000.

CASE HIGHLIGHTS

APPROVED PERSON CASES

1 DINO DEROSA (Chief Compliance Officer)

Reasons for Decision: November 13, 2018

In a Settlement Agreement, DeRosa admitted that he failed in his capacity as Chief Compliance Officer (“CCO”) of former MFDA Member, W. H. Stuart Mutuals Ltd., to identify regulatory concerns, and take adequate supervisory action including the completion of reasonable supervisory investigations, in response to red flags that could have revealed that the principals of the Member and several Approved Persons were soliciting millions of dollars from clients for investment in off-book promissory notes issued by W.H. Stuart, its principals and related entities. The promissory note scheme led to client losses totaling more than \$7 million dollars, the bankruptcy of the dealer, and the termination of its membership in the MFDA. DeRosa also failed to report complaints that came to his attention to the MFDA or to ensure that those complaints were properly investigated and dealt with promptly and fairly. He also admitted that he certified the accuracy of monthly financial reports submitted to the MFDA when he knew or ought to have known that the reports contained inaccurate financial information.

Among other things, DeRosa failed to investigate a client’s complaint that proceeds from the sale of mutual funds that were supposed to be invested in a “term investment at a 7% annual rate” were unaccounted for and failed to inquire into the activities of an unlicensed individual who was regularly accessing office facilities and client files. The Hearing Panel found that the supervisory responsibilities of a CCO must not be based on trust alone. A CCO must diligently challenge practices that may be questionable, even if those practices or explanations come from their superiors in the firm.

The Hearing Panel accepted the Settlement Agreement and imposed a permanent prohibition from conducting securities related business with an MFDA Member, a fine of \$10,000 and costs of \$5,000. The Hearing Panel took into account the fact that the Respondent had not received approximately \$200,000 of his own retirement savings deposited with the Member.

2 RYAN RAYMOND EDWARD DIBBLEY (Branch Manager)

Reasons for Decision: September 12, 2018

In a Settlement Agreement, Dibbley, a branch manager, admitted that he failed to adequately query or report unapproved outside activities at the branch location he supervised and advise the Member that the branch had ongoing financial difficulties. Specifically, Dibbley did not advise the Member of signs at the entrance of the branch listing various business entities when he had an obligation as branch manager to determine whether the businesses had been disclosed to the Member and approved by it. Dibbley also ought to have informed the Member of certain red flags about financial difficulties at the branch, including that he had not been paid salary for a period of time, and that he personally paid or loaned monies to pay expenses incurred by the branch that were not being paid as they came due. The principal of the branch, Scott Reeves, later plead guilty to criminal fraud with respect to his activities at the branch.

The Hearing Panel accepted the Settlement Agreement and imposed a six month prohibition on acting in the position of a branch manager, a fine of \$5,000 and costs of \$2,500.

3 BRADLEY JOHN GASCHO

Reasons for Decision: August 21, 2018

In a Settlement Agreement, Gascho admitted that he recommended to at least 73 clients that they concentrate their investment holdings in precious metal sector mutual funds without conducting adequate due diligence to assess the suitability of his investment recommendations having regard to the essential Know-Your-Client factors relevant to each client prior to recommending these investments. Gascho also misrepresented or failed to fully and adequately explain the risks of investing in precious metal clients to a senior client, and increased the client's risk tolerance on account forms to match his investment recommendations.

The Hearing Panel accepted the Settlement Agreement and imposed a three month prohibition from conducting securities related business with an MFDA Member, a fine of \$35,000 and costs of \$5,000.

4 SHAHIN GOLESTANI

Reasons for Decision: July 4, 2018

In a Settlement Agreement, Golestani admitted that he failed to learn and record accurate Know-Your-Client information for 21 client accounts and failed to ensure that each order and recommendation was suitable for the clients. Specifically, while working at a call centre operated by his Member, Golestani prompted, coached or influenced clients to answer questions in a certain manner in order to ensure the clients' risk tolerance levels appeared to be consistent with the clients' existing mutual fund investments.

The Hearing Panel accepted the Settlement Agreement and imposed a two year prohibition from conducting securities related business with an MFDA Member, a fine of \$5,000 and costs of \$2,500.

5 RAJBIR SINGH

Reasons for Decision: January 23, 2019

Singh asked his cousin to purchase mutual funds to assist Singh in qualifying for a bonus through an incentive program at Singh's Member. The Respondent loaned \$130,000 to his cousin who purchased investments at the Member, and subsequently redeemed and closed his account at the Member. When questioned by his Member about the transaction, Singh provided false information to his Member about the source of the monies his cousin used to purchase the investments.

The Hearing Panel imposed a two month suspension from conducting securities related business with an MFDA Member, a fine of \$3,000 and costs of \$1,000.

HEARINGS CONCLUDED BY TYPE OF PRIMARY ALLEGATION

ACTING OUTSIDE REGISTRATION STATUS

Blais, Raymond
Graham-Hart, Novelette
Snelson, Jon

ACTIVE SIGNATURE FALSIFICATION

Aitken, Judith
Bhullar, Aranpreet Kaur
Caswell, Kathleen
Gill, Paul Singh
He, Xiang
Jamshidi, Saied

Khanna, Sudhir
Lau, Jeffrey (Chi Kin)
MacDonald, Neil
Machon, Victor
Markus, Stefan
O'Mara, Michael

Sedley, David
Stemshorn-Russell, Lucas
Wu, Johnny
Yan, Suping
Yip, Chi

COMMISSIONS AND FEES

Ventolini, Fabio

CONDUCT UNBECOMING

Poon, Percy

CONFLICT OF INTEREST

Giuliani, Richard
Williams, Larry

FAILURE TO COOPERATE

Cudmore, David Hamilton
Hylton, Rholyn
Yang, Cuiqin Ammy

FALSIFICATION/MISREPRESENTATION

Fortes, Rhea
Golzay, Ajmal
Golzay, Attal
Golzay, Roomal
Hashimi, Mustafa Sayed

Hashimi, Zobair
Kolgekaya, Saadet
Lieu, Hammond
Masood, Mohammad
Pathan, Anjum

Rawani, Shameel
Rihawi, Mahmoud
Tabesh, Sama
Tay, Chun-Yi

FORGERY/FRAUD/THEFT/MISAPPROPRIATION/MISAPPLICATION

Breukelman, Nathan
Desgroseilliers, Eileen
Dew, Frank Harrison

Douglas, Brenda
Schwartz, Ronald

HEARINGS CONCLUDED BY TYPE OF PRIMARY ALLEGATION

OUTSIDE ACTIVITY

Chang, Tim
Ho, Stephanie
International Capital
Management Inc.

Lam, Hong
Sanchez, John Paul
Sanchez, Javier Andreas

PERSONAL FINANCIAL DEALINGS

Greenwood, Tracey
McDougall, Hugh
Niermann, Bernd

Piper, George
Sears, Susan
Travis, Jeremy

Visneskie, Mervin

POLICY & PROCEDURES

Coward, Jennifer Claire

PRE-SIGNED FORMS

Balbiran, Johanna
Bedard, Luke
Blake, Bradley
Borges, Jose
Brock, Gordon
Brock, Joshua
Chan, James
Chow, David
Chugh, Sunil
Cooper, Blair
Dick, Francine
Gallant, Kevin
Gilchrist, Andrew
Gulamali, Sajad
Ho, Bernard

Kehoe, John
Kirkwood, Glen
Lamb, Dale
Letourneau, Gerald
Lewis, Laurie
Lillie, David
Lo, Adrian
Marshall, Brien
Martin, William
McIntyre, Darrell
O'Connor, Donald
Oh, Moon-Gil
Pollon, Mark
Power, Kenneth
Riewe, Valerie

Rombough, Allan
Rosborough, Trevor
Rudolph, Kimberley
Sandhu, Navdeep
Sharma, Devendra
Shearing, Gregory
Simard, Marc
Stoddard, James
Thompson, Royston
Ward, Gary
Williams, Tamera
Williams, Todd
Wong, Simon Chi Ming

PROVINCIAL SECURITIES LEGISLATION

Sun Life Financial Investment Services (Canada) Inc.

REFERRAL ARRANGEMENTS

Kendrick, Paula
Uy, Grace

SECURITIES REGULATOR'S ORDER

Daves, Byron

HEARINGS CONCLUDED BY TYPE OF PRIMARY ALLEGATION

SUITABILITY – INVESTMENTS

| | |
|------------------|-------------------|
| Avhad, Vasant | Golestani, Shahin |
| Gascho, Bradley | Moroz, Paul |
| Gill, Jacqueline | Will, Shelley |

SUPERVISION

| | | |
|------------------------|--------------------------------|-------------------------------------|
| Banwell Financial Inc. | Equity Associates Inc. | Sentinel Financial Management Corp. |
| Bihis, Paulita | Excel Private Wealth Inc. | Tradex Management Inc. |
| DeRosa, Dino | Global Maxfin Investments Inc. | |
| Dibbley, Ryan | Olympian Financial Inc. | |

UNAUTHORIZED/DISCRETIONARY TRADING

| | | |
|--------------------|---------------------|---------------|
| Chung, Brian | Encalada, Sebastian | Martell, Rhys |
| Churchill, Heather | Fialho, Kenneth | Maxwell, Sean |
| Del Rosario, Sarah | Koss, Lexy | Tobac, David |

*Case is concluded on the date that the hearing panel issues its final Reasons for Decision.



GLOSSARY

ACTIVE SIGNATURE FALSIFICATION

Refers to instances in which an Approved Person or other individual signs the client's signature or initials on a document in an effort to make it appear the client actually signed the document.

APPROVED PERSON

Refers to an individual who is a partner, director, officer, compliance officer, branch manager, or alternate branch manager, employee or agent of a Member who (i) is registered or permitted, where required by applicable securities legislation, by the securities commission having jurisdiction, or (ii) submits to the jurisdiction of the MFDA.

BUSINESS STANDARDS

Refers to a breach of the high business standards required by MFDA Rule 2.1.1(b).

CANADIAN SECURITIES ADMINISTRATORS

Refers to the umbrella organization of provincial and territorial securities regulators in Canada.

COMMISSIONS AND FEES

Refers to allegations involving practices such as disclosure of commission structure and cost, and other issues such as where an Approved Person recommends a trade or multiple trades in a client's account for the purpose of generating sales commissions or otherwise creating a benefit for the Approved Person where there is little or no rationale for the trade.

COMPLAINT PROCEDURES

Refers to allegations involving the requirement that every Member shall establish written policies and procedures for dealing with client complaints that ensure that such complaints are dealt with promptly and fairly.

DISCRETIONARY TRADING

Refers to a situation whereby a Member or Approved Person is granted authority by the client to make a trade without obtaining specific instructions from the client prior to the execution of the trade concerning one or more elements of the trade: selection of the security to be purchased or sold, the amount of the security to be purchased or sold, and the timing of the trade. MFDA Members and Approved Persons are not permitted to engage in discretionary trading.

FALSIFICATION

Refers to the false making or alteration of a document by which the rights or obligations of another person are affected but where a person is not deprived of a property or a right.

FORGERY

Refers to the creation of a false document with the intent that it be acted upon as the original or genuine document, and where the victim is deprived of property or rights.

FRAUD

Refers to an act of dishonest deception, misrepresentation, or an intentional distortion of truth in order to induce another to part with something of value or to surrender a legal right.

HANDLING OF FUNDS

Refers to the failure to properly handle client funds in accordance with MFDA requirements.

KNOW-YOUR-CLIENT (KYC)

Refers to the requirement that a Member and Approved Person collect information about a client to assist in making suitable investment recommendations.

LEVERAGING

Refers to the practice of using borrowed money for the purpose of investing.

MEMBER

Refers to mutual fund dealers that are Members of the MFDA.

MISAPPLICATION OF FUNDS

Refers to situations where funds in the rightful possession of an Approved Person or Member are put to an improper purpose for the benefit of a third party.

MISAPPROPRIATION

Refers to situations where a person has a right to be in possession of property but puts it to his or her own benefit.

MISREPRESENTATION

Refers to a misstatement or omission of a material fact with the intent to deceive.

OUTSIDE ACTIVITIES (OA)

Refers to any activity conducted by an Approved Person outside of the Member: (a) for which direct or indirect payment, compensation, consideration or other benefit is received or expected; (b) involving any officer or director position and any other equivalent positions; or (c) involving any position of influence.

PERSONAL FINANCIAL DEALINGS (PFD)

Refers to situations in which an Approved Person or Member engages in financial activity with a client. A concern arising from this type of conduct is that conflicts of interest arise in connection with such activity. PFD can include borrowing from clients, lending to clients, and engaging in private investment schemes with clients.

POLICIES AND PROCEDURES

Refers to the requirement on Members to establish and maintain written policies and procedures (that have been approved by senior management) for dealing with clients and ensuring compliance with the Rules, By-laws and Policies of the MFDA, and applicable securities legislation.

PRE-SIGNED FORM

Refers to forms that have been signed by a client when they were blank or only partially completed.

PROVINCIAL SECURITIES LEGISLATION

Refers to the violation of provincial securities legislation and requirements for which there is no comparable MFDA requirement.

REFERRAL ARRANGEMENTS

Refers to an arrangement whereby a Member is paid, or pays a fee for the referral of a client to, or from, another person. All referrals must go through a Member.

SALES COMMUNICATIONS

Refers to the requirement that advertisements and sales communications must be approved by a designated partner, director, officer, compliance officer or branch manager before being issued. The rationale for this is to ensure that no misleading, inaccurate or otherwise prohibited information is provided to a client who may act upon such information in making investment decisions.

SENIOR

Refers to investors 60 years of age or over.

SIGNATURE FALSIFICATION

Refers to the creation, possession, or use of documents which have been pre-signed or on which client signatures have been falsified through other means. Examples include cutting and pasting a previous signature, signing a client's name to a document, having a client sign multiple forms for use in future trading, and using liquid paper to white out old instructions and write in new ones on a signed client form.

SUITABILITY

Refers to the requirement that recommendations made by an advisor be suitable in relation to a client's investment objectives, risk tolerance and other personal circumstances.

SUPERVISION

Refers to the MFDA's investigation of whether a supervisory failure may have contributed to situations where an Approved Person engaged in misconduct. Supervisory failures may include inadequacy in the procedures for supervision or in the actual supervision of others.

THEFT

Refers to the taking of property, not rightfully in one's possession, for personal use and exploitation.

TRANSFER OF ACCOUNTS

Refers to the transfer of an account without proper client consent or a delay in the transfer of the account.

VULNERABLE PERSON

Refers to investors particularly at risk due to circumstances such as language barriers, limited literacy, disability issues, or very limited financial resources.

UNAUTHORIZED TRADING

Refers to the practice of a Member or Approved Person making trades without the client's knowledge or approval.

RESOURCES

FURTHER INFORMATION

The MFDA website has additional information including with respect to the following areas:

- [Opening an Investment Account](#)
- [Protecting Yourself from Fraud](#)
- [Guide to the Hearing Process](#)
- [Sanctioned Guidelines](#)
- [Enforcement Hearings \(including \[Hearings Schedule\]\(#\), \[Current Cases\]\(#\), \[Completed Cases\]\(#\) and \[Cases Under Review/Appeal\]\(#\)\)](#)
- [Hearing Procedures \(including \[Rules of Procedure\]\(#\) and \[Forms\]\(#\)\)](#)
- [Related By-Law Sections \(Sections 18-26\)](#)
- [Enforcement Statistics](#) contains additional information on case handling activity
- [For Seniors](#)
- [For Investors](#)

HOW TO FILE A COMPLAINT

Information on how to file a complaint about a Member or Approved Person can be found at <http://www.mfda.ca/investors/complaints.html>

INVESTORS CAN COMPLAIN ELECTRONICALLY BY:

 complaints@mfda.ca

 using the complaint form available on the website

 416-361-6332
(toll-free: 1-888-466-6332)

OTHER RESOURCES

Ombudsman for Banking Services and Investments

Any action taken by the MFDA will not include an order that investors be compensated for any financial losses they may have suffered. Additionally, the MFDA is unable to assist clients with civil claims. Investors who wish to pursue financial compensation may wish to consult with the Ombudsman for Banking Services and Investments (www.obsi.ca or 1-888-451-4519) or a lawyer.

National Registration Search

In Canada, anyone trading securities or in the business of advising clients on such securities, including Approved Persons and Members, must be registered with the provincial or territorial securities regulator, unless an exemption applies. Check the National Registration Search to find out if an individual or firm is registered in your province or territory and what product and services a firm or individual can offer, or contact your provincial securities regulator.

Disciplined List

The Canadian Securities Administrators maintains a cross-jurisdictional Disciplined List, which can be used to search for any disciplinary action taken against an individual or company by a provincial securities regulator or self-regulatory organization, including the MFDA.

TORONTO OFFICE

121 King Street West
Suite 1000
Toronto, ON M5H 3T9

☎ (416) 361-6332 or
1-888-466-6332

✉ mfda@mfda.ca

PACIFIC OFFICE

650 West Georgia Street
Suite 1220
P.O. Box 11603
Vancouver, BC V6B 4N9

☎ (604) 694-8840

✉ PacificOffice@mfda.ca

PRAIRIE OFFICE

800-6th Avenue S.W.
Suite 850
Calgary, AB T2P 3G3

☎ (403) 266-8826

✉ PrarieOffice@mfda.ca



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