



**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: Quadrus Investment Services Ltd.**

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**SETTLEMENT AGREEMENT**

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**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, Quadrus Investment Services Ltd. (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 in all provinces and territories in Canada as a mutual fund dealer and has been a Member of the MFDA since March 2002.

7. The Respondent’s head office is located in London, Ontario.

#### **Approved Person RM**

8. RM has been registered as a mutual fund salesperson (now known as a dealing representative) with the Respondent in Ontario since September 1997, Alberta since November

2001, and British Columbia since July 2008. At all material times, RM conducted business in the Thunder Bay, Ontario area.

### **The Respondent's Policies and Procedures**

9. At all material times, the Respondent's policies and procedures prohibited its Approved Persons, including RM, from:

- engaging in discretionary trading in client accounts;
- directly reimbursing trading fees to clients; and
- using pre-signed account forms.

### **Failure to Adequately Supervise RM**

#### ***2009 Branch Review***

10. In March 2009, the Respondent's Compliance Officer for the Thunder Bay region (the "CO") conducted a normal course review of RM's branch office, which included a review of four of RM's client files.

11. During the review, the CO discovered that RM had, or may have, engaged in discretionary trading and engaged in personal financial dealings with a client (the "2009 Review Findings"). In particular, the CO discovered:

- correspondence from RM, and RM's assistant, to two clients, which indicated that RM was going to use his discretion to process trades in the clients' accounts;
- correspondence from RM to one client, which stated that RM was going to reimburse the client for a deferred sales charge ("DSC") fee incurred by the client; and
- lack of evidence of client authorization for one trade that RM processed in the account of one client.

12. Following the 2009 branch review, the CO provided RM and RM's branch manager with reports (the "Branch Review Reports"), which set out the 2009 Review Findings.

13. The CO required RM and RM's branch manager to sign the Branch Review Reports to confirm that RM either had addressed, or was going to address, the 2009 Review Findings. RM and RM's branch manager signed the Branch Review Reports in June 2009.

14. The Respondent relied on the written undertakings of RM and RM's branch manager in the Branch Review Reports. As deficiencies were found in the 2009 branch review, RM's branch was scheduled for a follow-up review to be carried out in 2010. Had RM's deficiencies not been detected in 2009 the branch would not have been subject to a review until 2012. Apart from relying on the undertakings of RM and RM's branch manager and the accelerated branch review, the Respondent did not take any additional supervisory steps to ensure that RM had resolved the 2009 Review Findings and that, going forward, he would not engage in misconduct related to the 2009 Review Findings.

### ***2010 Branch Review***

15. In September 2010, the CO conducted the follow up review of RM's branch office necessitated by the deficiencies noted in the 2009 review. This review included a review of 14 of RM's client files.

16. During the review, the CO discovered that RM had, or may have, engaged in discretionary trading, engaged in personal financial dealings with clients, and used pre-signed account forms (the "2010 Review Findings"). In particular, the CO discovered:

- correspondence from RM to six clients, which indicated that RM had used, or was going to use, his discretion to process trades in the clients' accounts;
- correspondence from RM to two clients, which stated that RM was going to reimburse the clients for DSC and other trading fees incurred by the clients;

- a cheque payable from RM to one client in respect of the reimbursement of a DSC fee incurred by the client;
- five pre-signed account forms in respect of three corporate clients; and
- lack of evidence of client authorization for seven trades that RM processed in the accounts of four clients.

17. All of the pre-signed account forms and several of the correspondence items described above were dated subsequent to when RM and RM's branch manager had signed the Branch Review Reports stating that RM either had addressed, or was going to address, the 2009 Review Findings.

18. Following the 2010 branch review, the CO provided RM and RM's branch manager with a document that set out the 2010 Review Findings and the steps that RM was required to take to address the 2010 Review Findings (the "Action Plan"). The Action Plan stated:

"Following [the 2010] review, [RM] provided a statement in response to these deficiencies and it is evident that he has made efforts to resolve the noted deficiencies. As a result, instead of imposing further sanctions on [RM's] trading activities (i.e. close supervision), it was decided that this action plan would be forwarded to [RM] to review, acknowledge and commit to resolving any outstanding issues by signing on the last page."

19. The CO required RM and RM's branch manager to sign the Action Plan document to confirm that RM either had addressed, or was going to address, the 2010 Review Findings. RM and RM's branch manager signed the Action Plan document in April 2011.

20. The Respondent relied on the written undertakings of RM and RM's branch manager in agreeing to abide by the Action Plan. As deficiencies were found in the 2010 branch review, RM's branch was scheduled for a follow-up review to be carried out in 2011. Had no deficiencies been detected the branch would not have been subject to a review until 2013. Apart from relying on the undertakings of RM and RM's branch manager, their execution of the Action Plan and the accelerated branch review, the Respondent did not take any additional supervisory

steps to ensure that RM had resolved the 2010 Review Findings and that, going forward, he would not engage in misconduct related to the 2010 Review Findings.

21. On March 11, 2011, prior to the issuance of the Action Plan, the CO recommended to the individual who at that time was the Respondent's Chief Compliance Officer (the "CCO")<sup>1</sup> that RM "be put on close supervision whereby [RM's branch manager] would need to pre-approve all trades prior to placement."

22. In an email dated March 13, 2011, the CCO advised the CO that:

"Yes, we decided to go the action plan route. If internal discipline (close supervision) then we'd have to report this to the MFDA, and they would likely open an investigation. I don't believe there are serious enough issues for an MFDA investigation, just a lot of extra work and burden on our existing teams."

### ***2011 Branch Review***

23. In September 2011, the CO conducted the accelerated follow-up review of RM's branch office, which included a review of nine of RM's client files.

24. During the review, the CO did not discover any evidence that RM had engaged in discretionary trading, engaged in personal financial dealings with clients, or used pre-signed account forms. As the 2011 branch review appeared to support the conclusion that RM had abided by the terms of the Action Plan, RM's branch reverted to the normal review cycle and did not become subject to review until 2014.

### ***2014 Branch Review***

25. In September 2014, the CO conducted the next normal cycle review of RM's branch office, which included a review of 4 of RM's client files.

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<sup>1</sup> This individual ceased to be the Respondent's CCO in March 2013 and has since passed away.

26. During the review of RM's client files, the CO discovered evidence of pre-signed account forms in corporate client files. The CO expanded his review to a total of 25 client files, and discovered 12 pre-signed account forms in respect of five corporate clients (the "2014 Review Findings"). No evidence of pre-signed account forms was found in individual client files.

27. All of the pre-signed account forms were dated subsequent to when RM and RM's branch manager signed the Action Plan stating that RM either had addressed, or was going to address, the 2010 Review Findings, including the finding in respect of RM's use of pre-signed account forms.

28. Following the 2014 branch review, the Respondent:

- in October 2014, filed a report on the MFDA's Member Event Tracking System advising the MFDA of the 2014 Review Findings;
- in November 2014, sent a disciplinary letter to RM regarding his use of pre-signed account forms; and
- as described below, in March 2015, conducted a review of all 241 of RM's client files.

29. In addition, on February 1, 2015, the Respondent placed RM on close supervision for a period of 12 months. The Respondent's policy is to maintain close supervision over any Approved Person that is subject to a regulatory investigation until the conclusion of that investigation. RM remains under close supervision. Among other things, the terms of the close supervision required RM's branch manager to:

- review all trade documentation related to trades processed by RM on corporate client accounts during the period of close supervision to verify that evidence of client authorization was present for each trade;
- review two of RM's client files per month to test for, among other things, further instances of discretionary trading, personal financial dealings with clients and the use of pre-signed account forms, and maintain written evidence of the review;

- complete monthly reports, jointly with the CO, confirming among other things, the following with respect to RM's activities:
  - all orders, both buy and sell, and sales contracts have been reviewed by a supervising officer of the Respondent;
  - a review of trading activity on a daily basis has been conducted of RM's client accounts;
  - no transactions have been made in any corporate client account until the full and correct documentation is in place; and
  - RM has not been granted any power of attorney over any client accounts;

(together, the "Branch Manager Supervision Requirements").

30. The Respondent did not require RM's branch manager to review trade documentation for trades processed by RM for individual client accounts.

31. In response to the disciplinary letter described above, RM signed the following acknowledgement and undertaking:

"I, [RM], acknowledge receipt of this letter and confirm that I will not engage in the practice of accepting pre-signed or partially completed forms from clients or use non-approved custom statements. I also confirm that I will read Chapter 19 and Chapter 25 of the Quadrus policies and procedures manual and complete the above-mentioned mutual fund training module by the requested date."

### ***2015 Full Client File Review***

32. In March 2015, the CO conducted a review of all 241 of RM's client files.

33. During the review, the CO discovered that RM had, or may have, engaged in discretionary trading and used pre-signed account forms (the "2015 Review Findings"). In particular, the CO discovered:



- correspondence and trade documentation, which indicated that RM had used, or was going to use, his discretion to process trades in the accounts of 41 clients; and
- eight pre-signed account forms in respect of seven clients.

34. Nine items of the correspondence and trade documentation described above were in respect of trades that RM had processed while he was on close supervision in February 2015 and March 2015. All of the pre-signed account forms were dated prior to the period that RM was on close supervision.

35. Following the 2015 review of RM's client files, the Respondent determined that the Branch Manager Supervision Requirements should be expanded beyond corporate client files to include individual client files.

36. In July 2015, the Branch Manager Supervision Requirements were expanded to require review of all trades on individual as well as corporate client accounts to verify that evidence of client authorization was present for each trade.

37. As a result, on July 20, 2015, supervisory staff of the Respondent advised RM's branch manager of his amended obligations under the Branch Manager Supervision Requirements, specifically his obligation to verify that evidence of client authorization was present for all trades processed by RM, and his obligation to maintain written evidence of his monthly reviews of RM's client files.

38. Since July 20, 2015, RM's branch manager has performed his obligations under the amended Branch Manager Supervision Requirements. The Respondent has not identified any further instances where RM had, or may have, during this period, engaged in discretionary trading, engaged in personal financial dealings with clients, or used pre-signed account forms.

39. In October 2015, the CO conducted a further review of 25 of RM's client files. During the review, the CO did not identify any further instances where RM had, or may have, engaged

in discretionary trading, engaged in personal financial dealings with clients, or used pre-signed account forms.

40. Commencing in January 2016, the CO engaged in weekly emails with RM's branch manager to ensure that RM's branch manager would be in a position to complete the required monthly reports referred to above. All monthly reports were completed and filed with the Respondent, completed as required.

41. By virtue of the Respondent's conduct described in this Settlement Agreement, the Respondent failed to employ adequate supervision to prevent RM from engaging in discretionary trading, engaging in personal financial dealings with clients, and using pre-signed account forms, contrary to MFDA Rules 2.1.1, 2.1.4, 2.3.1 and 2.5.1.

#### **Failure to Report the 2009 and 2010 Review Findings**

42. Since July 3, 2007, MFDA Policy No. 6, subsection 6.1(b)(i) has required a Member of the MFDA to report to the MFDA, within 5 business days, whenever a Member becomes aware that any of its Approved Persons, have, or may have, contravened any regulatory requirements relating to, among other things, unauthorized trading.

43. As a result of its discovery of the 2009 and 2010 Review Findings, the Respondent became aware in March 2009, and again in September 2010, that RM had, or may have, engaged in discretionary trading, contrary to MFDA Rule 2.3.1, thereby violating regulatory requirements related to unauthorized trading.

44. The Respondent failed to report to the MFDA, within 5 business days or at all, the 2009 and 2010 Review Findings, thereby failing to comply with the requirements of MFDA Policy No. 6, subsection 6.1(b)(i).

45. Since February 1, 2010, MFDA Policy No. 6, subsection 6.1(b)(v) has required a Member of the MFDA to report to the MFDA, within 5 business days, whenever a Member

becomes aware that any of its Approved Persons, have, or may have, contravened any regulatory requirements relating to personal financial dealings with a client.

46. As a result of its discovery of the 2010 Review Findings, the Respondent became aware in September 2010 that RM had, or may have, directly reimbursed the trading fees of clients, contrary to MFDA Rule 2.1.4, thereby violating regulatory requirements related to personal financial dealings with clients.

47. The Respondent failed to report to the MFDA, within 5 business days or at all, the 2010 Review Findings, thereby failing to comply with the requirements of MFDA Policy No. 6, subsection 6.1(b)(v).

#### **Additional Factors**

48. The Respondent has cooperated fully with the investigation.

49. No clients serviced by RM have complained about his conduct.

50. In November 2014, the Respondent sent letters to all six of RM's corporate clients to determine whether RM had engaged in any unauthorized trading activity in the clients' accounts. None of the clients reported any concerns to the Respondent.

51. In November 2014, the Respondent required that RM review and pass certain educational modules designed to remind him of his duties and obligations to clients with specific focus on the matters noted in his branch reviews.

52. The Respondent imposed the Action Plan on RM in an effort to provide him with a final chance to correct his behavior before the imposition of close supervision. This was a judgment call made by the then CCO, in anticipation that RM was suitably contrite and prepared to change his behavior. The Respondent confirms that this decision would not be taken today, and does not reflect its process or structure.

53. In May 2015, the Respondent sent letters to all 235 of the Respondent's non-corporate clients to determine whether RM had engaged in any unauthorized trading activity in the clients' accounts or engaged in personal financial dealings with the clients. None of the clients reported any concerns to the Respondent.

54. The Respondent changed its Approved Person review procedures in the third quarter of 2014. If an apparent infraction is discovered during a branch review, the Approved Person is immediately reported on the MFDA Member Event Tracking System as required, placed on close supervision and an internal investigation is opened by the Respondent's head office complaints and investigations team. Close supervision remains in place for between six and twelve months or longer if a regulatory investigation is initiated. Before close supervision is lifted a more detailed client file review is undertaken to ensure that the inappropriate activity has ceased.

## **V. CONTRAVENTIONS**

55. The Respondent admits that:

- a) between March 2009 and July 2015, the Respondent failed to employ adequate supervision to prevent Approved Person RM from engaging in discretionary trading, engaging in personal financial dealings with clients, and using pre-signed account forms, contrary to MFDA Rules 2.1.1, 2.1.4, 2.3.1 and 2.5.1; and
- b) the Respondent failed to report to the MFDA, within 5 business days or at all:
  - i) the Respondent's discoveries in March 2009 and September 2010, that Approved Person RM had, or may have, engaged in discretionary trading; and
  - ii) the Respondent's discovery in September 2010, that Approved Person RM had, or may have, engaged in personal financial dealings with clients;

contrary to MFDA Policy No. 6, subsections 6.1(b)(i) and (v).

## **VI. TERMS OF SETTLEMENT**

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

- (a) the Respondent shall pay a fine in the amount of \$75,000 pursuant to s. 24.1.2(b) of MFDA By-law No. 1;
- (b) the Respondent shall pay costs in the amount of \$20,000 pursuant to s. 24.2 of MFDA By-law No. 1;
- (c) the Respondent shall in the future comply with MFDA Rules 2.1.1, 2.1.4, 2.3.1 and 2.5.1, and MFDA Policy No. 6; and
- (d) a senior officer of the Respondent will attend in person, on the date set for the Settlement Hearing.

## **VII. STAFF COMMITMENT**

57. 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 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 facts and contraventions set out in Parts IV and V, whether known or unknown at the time of settlement. Furthermore, nothing in this Settlement Agreement shall relieve the Respondent from fulfilling any continuing regulatory obligations.

## **VIII. PROCEDURE FOR APPROVAL OF SETTLEMENT**

58. 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.

59. 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.

60. 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.

61. 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**

62. 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 section 24.3 of the By-laws of the MFDA against the Respondent 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 action 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**

63. 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.

64. 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.

#### **XI. DISCLOSURE OF AGREEMENT**

65. 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.

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

**XII. EXECUTION OF SETTLEMENT AGREEMENT**

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

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

**DATED** this 17<sup>th</sup> day of November, 2016.

“Michael Stanley”  
\_\_\_\_\_  
Quadrus Investment Services Ltd  
Per: Michael Stanley, authorized signing officer

“GH”  
\_\_\_\_\_  
Witness – Signature

GH  
\_\_\_\_\_  
Witness – Print Name

“Shaun Devlin”  
\_\_\_\_\_  
Shaun Devlin  
Staff of the MFDA  
Per: Shaun Devlin  
Senior Vice-President,  
Member Regulation – Enforcement



**Schedule “A”**

**Order**

**File No. 201690**



**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: Quadrus Investment Services Ltd**

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**ORDER**

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**WHEREAS** on [date], 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 Quadrus Investment Services Ltd. (the “Respondent”);

**AND WHEREAS** the Respondent entered into a settlement agreement with Staff of the MFDA, dated [date] (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:

- a) between March 2009 and July 2015, failed to employ adequate supervision to prevent Approved Person RM from engaging in discretionary trading, engaging in personal financial dealings with clients, and using pre-signed account forms, contrary to MFDA Rules 2.1.1, 2.1.4, 2.3.1 and 2.5.1; and

- b) failed to report to the MFDA, within 5 business days or at all:
  - i. the Respondent's discoveries in March 2009 and September 2010, that Approved Person RM had, or may have, engaged in discretionary trading; and
  - ii. the Respondent's discovery in September 2010, that Approved Person RM had, or may have, engaged in personal financial dealings with clients;

contrary to MFDA Policy No. 6, subsections 6.1(b)(i) and (v).

**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 \$75,000 pursuant to s. 24.1.2(b) of MFDA By-law No. 1;
2. the Respondent shall pay costs in the amount of \$20,000 pursuant to s. 24.2 of MFDA By-law No. 1;
3. Respondent shall in the future comply with MFDA Rules 2.1.1, 2.1.4, 2.3.1, and 2.5.1 and MFDA Policy No. 6; and

4. If at any time a non-party to this proceeding, with the exception of the bodies set out in section 23 of MFDA By-law No. 1, requests production of or access to exhibits in this proceeding that contain personal information as defined by the MFDA Privacy Policy, then the MFDA Corporate Secretary shall not provide copies of or access to the requested exhibits to the non-party without first redacting from them any and all 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]

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