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

IN THE MATTER OF A DISCIPLINARY HEARING
PURSUANT TO SECTIONS 20 AND 24 OF BY-LAW NO. 1
OF THE MUTUAL FUND DEALERS ASSOCIATION OF CANADA

Re: Hill & Crawford Investment Management Group Ltd.
and Albert Rodney Hill

AMENDED NOTICE OF HEARING[1]

NOTICE is hereby given that a first appearance will take place by teleconference before a hearing panel (the "Hearing Panel") of the Regional Council of the Central Region of the Mutual Fund Dealers Association of Canada (the "MFDA") in the hearing room located at 121 King Street West, Suite 1000, Toronto, Ontario on Friday, February 27, 2009 at 10:00 a.m., or as soon thereafter as the hearing can be held, concerning a disciplinary proceeding commenced by the MFDA against Hill & Crawford Investment Management Group Ltd. ("Hill & Crawford") and Albert Rodney Hill ("Hill").

DATED at Toronto this 31st day of December, 2008.

"Jason D. Bennett"
Jason D. Bennett
Corporate Secretary

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[1] Notice of Hearing amended on May 15, 2009.

NOTICE is further given that staff of the MFDA ("Staff") alleges the following violations of the By-laws, Rules or Policies of the MFDA:

Allegation 1: Financial and Operational Requirements

(a) (i) In January 2005 Hill & Crawford made payments to Hill without obtaining the prior written consent of MFDA Staff, contrary to the terms of a subordinated loan agreement ("SLA") between Hill & Crawford and Hill and the MFDA;

(ii) Between April and October 2005, Hill & Crawford, while designated in early warning pursuant to MFDA Rule 3.4.2, made payments to Hill and Hill's spouse without obtaining the prior written consent of MFDA Staff, contrary to the terms of a SLA between Hill & Crawford and Hill and the MFDA and contrary to MFDA Rule 3.4.2(b)(iv) [Early Warning Requirements];

(b) In August and September 2006 and in August and September 2007, while designated in early warning pursuant to MFDA Rule 3.4.2 and subject to additional early warning restrictions imposed by MFDA Staff pursuant to MFDA Rule 3.4.3, Hill & Crawford opened 3 new client accounts and hired 2 new Approved Persons, contrary to MFDA Rule 3.4.3 [Early Warning Restrictions];

(c) ~~Between~~ Since February 2007 ~~and December 2008~~, Hill & Crawford has failed to consistently maintain minimum capital of $50,000 as required for a Level II dealer and risk adjusted capital greater than zero, contrary to MFDA Rule 3.1.1.

(d) Since January 2, 2009, the Respondents have failed to comply with restrictions and requirements that were imposed on Hill & Crawford by Staff of the MFDA pursuant to MFDA Rule 3.4.3. Specifically, the Respondents failed to:

(i) cease opening new client accounts;

(ii) notify all Approved Persons of the early warning restrictions that had been imposed on Hill & Crawford; and

(iii) provide Staff of the MFDA with a copy of correspondence to Approved Persons of Hill & Crawford informing them that no new client accounts could be opened after January 2, 2009.

Allegation 2: Between August 2006 and March 2007, Hill & Crawford failed to comply with the terms of an Agreement and Undertaking, dated October 25, 2005, to resolve compliance deficiencies identified during an MFDA compliance examination, thereby engaging the jurisdiction of the Hearing Panel to impose a penalty on Hill & Crawford for failing to carry out an agreement with the MFDA, pursuant to section 24.1.2(i) of MFDA By-Law No. 1.

Allegation 3: In April 2007, Hill & Crawford was found to be in possession of eight blank pre-signed forms in respect of six client accounts, contrary to MFDA Rule 2.1.1.

Allegation 4: ~~Between~~ Since October 2005 ~~and March 2007~~, Hill, in his capacity as President, Chief Compliance Officer and sole shareholder of Hill & Crawford, engaged in conduct contrary to MFDA Rule 2.1.1(b) and (c) by failing to ensure that Hill & Crawford:

(a) complied with the terms of the Agreement and Undertaking, dated October 25, 2005; and
(b) complied with the financial and operational requirements of MFDA Rules 3.1.1, 3.4.2 and 3.4.3.

PARTICULARS

NOTICE is further given that the following is a summary of the facts alleged and intended to be relied upon by Staff at the hearing:

Registration History

1. Hill & Crawford is registered as a mutual fund dealer in Ontario and as a mutual fund dealer and a scholarship plan dealer in British Columbia. Hill & Crawford became a Member of the MFDA on March 4, 2003.

2. Hill is the President, Chief Compliance Officer and sole shareholder of Hill & Crawford. Hill is registered as an officer and director and as a compliance officer in Ontario and British Columbia.

Allegation 1: Contraventions of Financial and Operational Requirements

(a) Chronology of Early Warning Designations and Additional Early Warning Restrictions

3. As set out in more detail below, since Hill & Crawford became a Member of the MFDA, it has frequently failed to maintain sufficient risk adjusted capital ("RAC") to avoid triggering the early warning tests set out in MFDA Rule 3.4.2(a). Consequently, Hill & Crawford has been designated in early warning during the following periods:

(a) from July 7, 2003 to September 10, 2003;

(b) from June 22, 2004 to January 4, 2005;

(c) from February 22, 2005 to December 8, 2006; and

(d) from May 9, 2007 to the present.

4. On July 7, 2003, shortly after becoming a Member of the MFDA, Hill & Crawford was designated in discretionary early warning by Staff pursuant to MFDA Rule 3.4.2(a)(v) due to concerns about Hill & Crawford's capital, profitability and liquidity positions.

5. On September 10, 2003, Hill & Crawford was removed from discretionary early warning by Staff after entering into a SLA dated September 3, 2003, pursuant to which Hill loaned Hill & Crawford $90,000.

6. On June 22, 2004, Hill & Crawford was designated in early warning pursuant to MFDA Rule 3.4.2(a)(iii) [profitability concerns] after its loss for the quarter ending March 31, 2004 exceeded its RAC.

7. On October 5, 2004, Hill & Crawford, while designated in early warning and with the knowledge and consent of Staff, attempted to address its RAC deficiency by entering into a revised SLA with Hill pursuant to which Hill increased his loan to Hill & Crawford to a total of $94,223. The terms of the revised SLA, as approved by Staff, prohibited Hill & Crawford from repaying Hill directly or indirectly any amount of the loan without first obtaining the prior written consent of Staff.

(b) Payments Contrary to Terms of SLA and Early Warning Requirements

8. On January 31, 2005, Hill & Crawford made a partial loan repayment to Hill in the amount of $4,044 without obtaining the prior written consent of Staff, contrary to the terms of the SLA. Staff subsequently asked Hill & Crawford to reclassify the repayment as a shareholder advance on its FQR for January 2005. As a result of making this payment/advance, Hill & Crawford's RAC fell below zero and Hill & Crawford was therefore capital deficient and, as a result, was designated in early warning pursuant to MFDA Rule 2.4.2(a)(i) on February 22, 2005, as described in the "Chronology" above.

9. In April 2005, while designated in early warning, Hill & Crawford made a $5,267 advance to Hill without first obtaining the prior written consent of Staff, contrary to terms of the SLA and the early warning restrictions applicable to Hill & Crawford under MFDA Rule 3.4.2(b)(iv).

10. In May, June and July 2005, while still designated in early warning, Hill & Crawford made additional payments to Hill, described on its monthly FQRs as "advance to shareholder" and "management wages", without obtaining the prior written consent of Staff, contrary to the terms of the SLA and the early warning restrictions applicable to Hill & Crawford under MFDA Rule 3.4.2(b)(iv).

11. In September and October 2005, while still designated in early warning, Hill & Crawford made payments to the spouse of Hill, and further partial loan repayments to Hill, without obtaining the prior written consent of Staff, contrary to the terms of the SLA and the early warning restrictions applicable to Hill & Crawford under MFDA Rule 3.4.2(b)(iv).[2]

(c) Failure to file monthly FQRs in a timely manner

12. Between February 2006 and August 2006, while designated in early warning, Hill & Crawford failed to submit monthly FQRs for the seven month period January to July 2006 inclusive in a timely manner, contrary to MFDA Rule 3.4.2(b)(v) [Early Warning Requirements] and MFDA Rule 3.5.1 [Monthly Filing Requirements].

[2] Hill & Crawford made these payments prior to entering into the Agreement and Undertaking on October 25, 2005. MFDA Staff first learned of the payments in November 2005.

13. In October 2006, Staff completed a review of the FQRs for the period January to July 2006 which Hill & Crawford had subsequently filed.

14. On October 27, 2006, Staff issued a warning letter to Hill & Crawford for apparently breaching its obligations to file FQRs on a timely basis.

(d) Contraventions of Additional Early Warning Restrictions

15. While designated in early warning and subject to additional early warning restrictions imposed by Staff pursuant to MFDA Rule 3.4.3, Hill & Crawford:

(a) opened a new account for client EO on August 8, 2006;

(b) opened a new account for client RP on September 28, 2006;

(c) hired a new Approved Person, FS, on October 10, 2006;

(d) hired a new Approved Person, MS, on August 22, 2007; and

(e) hired a new Approved Person, KA, on September 7, 2007.

All of which conduct was contrary to the additional early warning restrictions imposed by Staff on Hill & Crawford pursuant to MFDA Rule 3.4.3.

(e) Failure to Maintain Minimum Capital and Risk Adjusted Capital Greater Than Zero

16. In its FQR for February 2007, Hill & Crawford reported positive RAC in the amount of $15,679.

17. During a sales compliance examination conducted by Staff in the Spring of 2007, Staff determined that Hill & Crawford actually had a RAC deficiency in the amount of approximately $15,750 and had failed to maintain:

(a) sufficient books and records to substantiate the balances reported in its unaudited FQR for the month ended February 28, 2007;

(b) RAC greater than zero; and

(c) the minimum capital required of a Level 2 dealer ($50,000), contrary to MFDA Rule 3.1.1.

18. Hill & Crawford was notified by Staff on June 28, 2007 that it had triggered a capital deficiency and would therefore continue to be designated in early warning. Staff

requested that Hill & Crawford inject $26,000 in capital by July 6, 2007 in order for Hill & Crawford to maintain adequate regulatory capital, which it did on July 10, 2007.

19. In October and November 2007 and in March 2008, Hill & Crawford failed to maintain sufficient RAC to avoid triggering the profitability test set out in MFDA Rule 3.4.2(a)(iii).

20. In every month since May 2008, Hill & Crawford has failed to maintain sufficient RAC to avoid triggering multiple early warning tests set out in MFDA Rule 3.4.2(a).

21. Since July 2008, Hill & Crawford has failed to maintain RAC greater than zero and the minimum capital required of a Level 2 dealer ($50,000), contrary to MFDA Rule 3.1.1.

22. On January 2, 2009, Hill & Crawford was informed by Staff of the MFDA that as a result of its failure to rectify its capital deficiency between July and December 2008, the MFDA was imposing additional early warning restrictions on Hill & Crawford pursuant to MFDA Rule 3.4.3 including a prohibition on the opening of new client accounts.

23. After January 2, 2009, Hill & Crawford failed to provide evidence requested by Staff of the MFDA indicating that Hill & Crawford had provided its Approved Persons with written notification of the early warning restrictions.

24. In February 2009, Hill provided Hill & Crawford with an additional $30,000 injection of capital in order to rectify Hill & Crawford's RAC deficiency. However, the FQR for the month ended February 28, 2009 which was filed by Hill & Crawford on March 20, 2009 indicated that in spite of the $30,000 capital injection, Hill & Crawford had a RAC deficiency in the amount of $12,942 as a result of continuing operating losses.

25. During a visit by MFDA Staff to the office premises of Hill & Crawford on March 26, 2009, MFDA Staff obtained evidence that Hill & Crawford had opened 102 new client accounts after January 2, 2009 in contravention of the MFDA Rule 3.4.3 early warning restrictions.

Allegation 2: Breach of Agreement and Undertaking

~~22.~~26. In January 2005, Staff conducted a first round compliance examination of Hill & Crawford to assess its compliance with MFDA Rules, By-laws and Policies during the period January 1, 2004 to December 31, 2004 (the "First Examination"). The results of the First Examination were summarized and delivered to Hill & Crawford in a report dated June 14, 2005.

~~23.~~27. The First Examination identified numerous compliance deficiencies which required immediate corrective action by Hill & Crawford.

~~24.~~28. In May 2005, MFDA Compliance Staff referred Hill & Crawford to MFDA Enforcement Staff for possible disciplinary proceedings in respect of the compliance deficiencies identified in the First Examination.

~~25.~~29. On October 25, 2005, Hill & Crawford entered into an Agreement and Undertaking with Staff in lieu of Staff commencing disciplinary proceedings against it in respect of the deficiencies identified during the First Examination. Under the terms of the Agreement and Undertaking, Hill & Crawford agreed to:

(a) resolve the deficiencies identified in the First Examination to the satisfaction of Staff;

(b) retain a consultant at Hill & Crawford's expense to assist it in resolving the deficiencies identified in the First Examination;

(c) cease making loan re-payments to Hill without the prior written consent of Staff and to otherwise comply with the terms of the SLA; and

(d) comply with the early warning restrictions in MFDA Rule 3.4.2(b)(iv) for so long as Hill & Crawford remained designated in early warning status.

~~26.~~30. Under the terms of the Agreement and Undertaking, Hill & Crawford acknowledged and agreed that any breach of the Agreement and Undertaking may result in disciplinary proceedings being taken against it with respect to either the compliance deficiencies identified during the First Examination or the breach of the Agreement and Undertaking itself, or both.

Consultant Retained to Resolve Compliance Deficiencies

~~27.~~31. On February 6, 2006, Hill & Crawford retained a consultant to assist it in

resolving the compliance deficiencies identified during the First Examination, as required under the terms of the Agreement and Undertaking.

~~28.~~32. Between February 6, 2006 and December 6, 2006, the consultant evaluated Hill & Crawford's compliance program, made recommendations to resolve the First Examination deficiencies, monitored and tested Hill & Crawford's implementation of the its recommendations, and reported its findings to Staff.

~~29.~~33. On December 6, 2006, after conducting some additional testing at the request of Staff, the consultant advised Staff that Hill & Crawford had resolved the compliance deficiencies identified during the First Examination and that in her opinion, no further action was required.

~~30.~~34. On December 8, 2006, Staff notified Hill & Crawford that, notwithstanding the consultant's conclusions, several changes to Hill & Crawford's compliance regime had not been implemented in accordance with the consultant's action plan or in compliance with MFDA requirements to the satisfaction of Staff, as required by section 2(a) of the Agreement and Undertaking.

~~31.~~35. As a result, Staff advised Hill & Crawford that it would shortly be conducting a second compliance examination of Hill & Crawford, at which time Staff would assess Hill & Crawford's overall compliance with the Agreement and Undertaking and MFDA By-laws, Rules and Policies and then determine whether enforcement proceedings were warranted.

The Second Compliance Examination

~~32.~~36. In April 2007, Staff conducted a second round compliance examination of Hill & Crawford to assess its compliance with MFDA Rules, By-laws and Policies during the period August 1, 2006 and March 31, 2007 (the "Second Examination"). The results of the Second Examination were summarized and delivered to Hill & Crawford in a report dated July 30, 2007.

~~33.~~37. The Second Examination revealed that several deficiencies identified during the First Examination had not been resolved by Hill & Crawford in accordance with the

terms of the Agreement and Undertaking (the "Repeat Deficiencies").

~~34.~~38. Each of the Repeat Deficiencies constitutes a breach of the Agreement and Undertaking, thereby engaging the jurisdiction of the Hearing Panel to impose a penalty on Hill & Crawford for failing to carry out an agreement with the MFDA, pursuant to section 24.1.2(i) of MFDA By-Law No. 1.

The Repeat Deficiencies

(i) Failure to Maintain Trade Blotters

~~35.~~39. The First Examination revealed that Hill & Crawford did not keep trade blotters or other records containing an itemized daily record of all purchases and sales of securities, including the name of the securities, the class or designation of the securities, the number or value of the securities, the unit and aggregate purchase or sale price and the trade date, as were necessary for the proper recording of its business transactions and financial affairs, contrary to MFDA Rule 5.1(a) [trade blotters or other records].

~~36.~~40. In accordance with the consultant's action plan dated October 17, 2006, Hill & Crawford advised Staff that it intended to resolve this deficiency by recording all daily trading activity on an Excel spreadsheet it had created for this purpose.

~~37.~~41. The Second Examination revealed the following:

(a) there was no evidence that Hill & Crawford used any form of trade blotter in August and September 2006;

(b) there was no evidence that Hill & Crawford used its Excel spreadsheet to record trading activity after October 17, 2006; and

(c) after October 17, 2006, Hill & Crawford began using trade blotters produced by third party service providers, first FundSERV Inc. and then, commencing December 2006, MRS Inc., in an attempt to meet the requirements of MFDA Rule 5.1(a).

~~38.~~42. The trade blotters produced by MRS Inc. were insufficient to meet the requirements of MFDA Rule 5.1(a) because they did not record all trade transactions including trades in RESP accounts and "off-book" trades.[3]

[3] For the purposes of this Notice of Hearing, an "off-book" trade refers to a trade made by a client directly with a mutual fund company instead of through Hill & Crawford.

~~39.~~43. Hill & Crawford's failure to keep any form of trade blotter between August and September 2006 inclusive and its subsequent failure to implement and maintain a trade blotter which recorded all types of trading activity during the review period was contrary to MFDA Rule 5.1(a) and therefore constituted a repeat deficiency and breach of the Agreement and Undertaking.

(ii) Failure to Maintain Records of Trade Reconciliations

~~40.~~44. The First Examination revealed that Hill & Crawford did not maintain records of all of its compliance and supervisory activities, including records of trade reconciliations conducted in accordance with MFDA Policy 4 [Internal Control Policy Statements], contrary to MFDA Rules 2.5.4 [Maintenance of Supervisory Review Documentation] and 5.6 [Record Retention]. Hill & Crawford advised Staff during the First Examination that any records it used to conduct trade reconciliations were destroyed after use.

~~41.~~45. In accordance with the consultant's action plan dated October 17, 2006, Hill & Crawford advised Staff that it intended to resolve this deficiency by performing daily trade reconciliations in which it "pulled up" the electronic record of each client's account as maintained on-line by the mutual fund company(s) and compared that information to the Excel spreadsheet maintained by Hill & Crawford, as described above. Hill & Crawford would rectify and document any discrepancies it detected, and evidence of these trade reconciliations would be maintained for seven years.

~~42.~~46. During the Second Examination, Hill & Crawford advised Staff that since approximately December 1, 2006 it had been performing daily trade reconciliations by comparing MRS Inc. trade blotters (instead of its own Excel spreadsheet) to the on-line mutual fund company records for each of its clients.

~~43.~~47. The Second Examination revealed the following:

(d) there was no evidence that Hill & Crawford used any form of trade blotter in August and September 2006, such that Hill & Crawford could not have conducted daily trade reconciliations in accordance with MFDA Policy 4 during this period;

(e) the MRS Inc. trade blotters relied upon by Hill & Crawford commencing December 2006 were not intended or designed by MRS Inc. to capture all of Hill & Crawford's trading activity and were therefore insufficient to enable

Hill & Crawford to conduct daily trade reconciliations in accordance with MFDA Policy 4; and

(f) in response to a request by Staff, Hill & Crawford was unable to produce any evidence that it had performed trade reconciliations during the review period.

~~44.~~48. Hill & Crawford's failure to maintain evidence of trade reconciliations in accordance MFDA Policy 4 during the review period was contrary to MFDA Rules 2.5.4 and 5.6 and therefore constituted a repeat deficiency and breach of the Agreement and Undertaking.

~~45.~~49. To the extent that Hill & Crawford did not maintain a trade blotter and evidence of trade reconciliations in the manner described above, Hill & Crawford was unable to properly review trading activity, contrary to MFDA Rule 2.5 [Minimum Standards of Supervision].

(iii) Failure to Issue Account Statements from Own Books & Records

~~46.~~50. The First Examination revealed that clients of Hill & Crawford serviced by one of its Approved Persons did not receive annual client account statements for the 2003 calendar year, contrary to MFDA Rule 5.3.1(a) [Delivery of Account Statement- client name account].

~~47.~~51. In accordance with the consultant's action plan dated October 17, 2006, Hill & Crawford advised Staff that it intended to resolve this deficiency by ensuring that it mailed annual account statements to all clients whose accounts were held in client name within 30 days of calendar year-end.

~~48.~~52. The Second Examination revealed that Hill & Crawford did not produce and issue annual account statements generated from its own books and records for clients whose accounts were held in client name. Instead, the Second Examination revealed that Hill & Crawford relied on and used account statements produced by individual mutual fund companies for each client, which it then modified by adding Hill & Crawford's name and logo, to create the appearance that Hill & Crawford was generating annual account statements from its own books and records and sending them to all clients whose accounts were held in client name.

~~49.~~53. Hill & Crawford's failure to send annual account statements produced from its own books and records to all clients whose accounts were held in client name was contrary to MFDA Rule 5.3.1(a) and therefore constituted a repeat deficiency and breach of the Agreement and Undertaking.

(iv) Failure to Maintain Financial Books and Records

~~50.~~54. The First Examination revealed that Hill & Crawford did not maintain, or could not produce supporting documentation in respect of, the following financial books and records, contrary to MFDA Rules 5.1 [Requirement for Records] and 5.6 [Record Retention]:

(b) general ledger for the months ending February, June and November 2004;
(c) journal entries for the months of February, June and November 2004;
(d) trial balance as at February 28, 2004;
(e) most recent year-end notice of assessment from Canada Revenue Agency;
(f) list of assets for February, June and November 2004;
(g) commissions payable to an Approved Person as at November 30, 2004;
(h) receivables from mutual fund companies for February, June and November 2004; and
(i) variable compensation expense as at November 30, 2004.

~~51.~~55. In addition, Hill & Crawford advised Staff that it only prepared its financial books and records on an annual basis at fiscal year-end, rather than on an ongoing basis.

~~52.~~56. In accordance with the consultant's action plan dated October 17, 2006, Hill & Crawford advised Staff that it intended to resolve this deficiency by implementing an accounting program that was capable of maintaining and producing all required records and that it would begin entering the supporting information into the accounting program at the end of each month and would send that information to its accountant for monthly verification.

~~53.~~57. The Second Examination revealed that Hill & Crawford was unable to provide the following financial books, records or information to Staff:

(a) a detailed monthly ledger for the period October 2006 to March 2007;

(b) commission payables to Approved Persons as at February 28, 2007;

(c) copies of its responses to written inquiries from MFDA Staff regarding Hill & Crawford's FQR filings from January 1, 2007 to July 30, 2007;

(d) supporting documentation in respect of numerous entries in its trial balance or FQR;

~~54.~~58. In addition, Staff found no evidence that Hill & Crawford prepared its financial books and records on a monthly basis and observed that the trial balance provided by Hill & Crawford's accountant for the months of October 2006 to February 2007 was unbalanced.

~~55.~~59. Hill & Crawford's failure to keep such books, records and other documents as were necessary for the proper recording of Hill & Crawford's business transactions and financial affairs was contrary to MFDA Rules 5.1 and 5.6 and therefore constituted a repeat deficiency and breach of the Agreement and Undertaking.

(v) Failure to Comply with FQR Requirements

~~56.~~60. The First Examination revealed that Hill & Crawford did not comply in all respects with the requirements set out in Note 1 to the MFDA's FQR, including in particular the requirement to prepare its financial statements in accordance with generally accepted accounting principles ("GAAP").

~~57.~~61. In accordance with the consultant's action plan dated October 17, 2006, Hill & Crawford advised Staff that it intended to resolve this deficiency by reviewing all FQR items on a monthly basis to ensure their accuracy and completeness and maintaining all records used for this purpose for a period of seven years, as required by MFDA Rule 5.6 [Record Retention].

~~58.~~62. The Second Examination revealed that Hill & Crawford's FQR for February 2007 was deficient in the following respects:

(b) There was inadequate documentation to support the receivable owing from its carrying broker/mutual fund account. Based on the limited records available at Hill & Crawford, the receivable was understated by $715, meaning its RAC was understated by $715;

(c) Hill & Crawford did not properly accrue its variable compensation payable, leading to its RAC being overstated by $13,823;

(d) Hill & Crawford did not properly accrue for wages, benefits and management fees payable, leading to its RAC being overstated by $11,012;

(e) Hill & Crawford did not include the incorporation cost in its fixed assets balance, leading to its fixed asset balance being understated by $850 (no impact on RAC); and

(f) Statement D reported that Hill & Crawford had three Approved Persons, whereas the National Registration Database indicated that Hill & Crawford had four Approved Persons (no impact on RAC).

~~59.~~63. Hill & Crawford's failure to comply in all respects with the requirements set out in Note 1 to the MFDA's FQR constituted a repeat deficiency and a breach of the Agreement and Undertaking.

(vi) Failure to Prepare Bank Reconciliations

~~60.~~64. The First Examination revealed that Hill & Crawford did not prepare written bank reconciliations on at least a monthly basis and could not produce evidence that a senior management official of Hill & Crawford had reviewed, dated and approved all bank reconciliation items, contrary to MFDA Policy 4.

~~61.~~65. In accordance with the consultant's action plan dated October 17, 2006, Hill & Crawford advised Staff that it intended to resolve this deficiency by having its accountant prepare bank reconciliations on a monthly basis, which the accountant would then send to Hill & Crawford in a timely manner for review and approval. Hill & Crawford also advised Staff that it would maintain copies of all such reviewed and approved bank reconciliations for a period of seven years, as required by MFDA Rule 5.6.

~~62.~~66. The Second Examination revealed that Hill & Crawford did not prepare, review or approve bank reconciliations on a monthly basis or otherwise.

~~63.~~67. Hill & Crawford's failure to prepare, review and approve written bank reconciliations on at least a monthly basis, identifying and dating all reconciled items, was contrary to MFDA Policy 4 and therefore constituted a repeat deficiency and breach of the Agreement and Undertaking.

Allegation 3: Possession of Blank Pre-Signed Forms

~~64.~~68. The Second Examination revealed that Hill & Crawford had in its possession eight blank pre-signed forms in respect of six client accounts serviced by Hill, contrary to MFDA Rule 2.1.1 [Standard of Conduct]. MFDA Staff found blank pre-signed forms in the following client files:

Client Name	Blank Pre-Signed Forms
JB	One (1) blank pre-signed Purchase Application form.
SB	Two (2) MRS Deregistration/Withdrawal Request forms.
WB	Two (2) blank pre-signed Purchase Application forms.
DB	One (1) blank pre-signed MRS Transfer Authorization form.
DF	One (1) blank pre-signed MRS Mutual Fund Trade Ticket.
AS	One (1) blank pre-signed MRS Transfer Authorization form.

~~65.~~69. By obtaining and possessing blank pre-signed forms, Hill & Crawford failed to observe high standards of ethics in the conduct of business and engaged in business conduct or practice that was unbecoming, contrary to MFDA Rule 2.1.1(b) and (c).

Allegation 4: Conduct Unbecoming and Detrimental to the Public Interest

~~66.~~70. ~~Between~~ Since October 2005 ~~and March 2007~~, Hill, in his capacity as the President, Chief Compliance Officer and sole shareholder of Hill & Crawford, engaged in business conduct or practice that was unbecoming or detrimental to the public interest contrary to MFDA Rule 2.1.1(b) and (c) by failing to ensure that Hill & Crawford:

(a) complied with the terms of the Agreement and Undertaking, dated October 25, 2005; and

(b) complied with the financial and operational requirements set out in MFDA Rules 3.1.1, 3.4.2 and 3.4.3.

MFDA Application For An Order Pursuant To S. 24.3 Of MFDA By-Law No. 1

71. On March 20, 2009, Hill & Crawford filed an FQR for the month ended February 28, 2009 which indicated that Hill & Crawford was continuing to sustain substantial operating losses and had failed to rectify its RAC deficiency in spite of a $30,000 capital injection from Hill in February 2009.

72. MFDA Staff attended at the office premises of Hill & Crawford on Thursday, March 26, 2009. During that attendance:

(a) Hill was unable to produce for inspection copies of books, records and other documents associated with client accounts that the Member is required to maintain at its office;

(b) Hill was unable to produce evidence that he or any other individual was adequately fulfilling Hill & Crawford's trade supervision obligations; and

(c) Hill provided MFDA Staff with a letter indicating that Hill & Crawford intended to resign from membership in the MFDA on May 15, 2009.

73. On March 30, 2009, MFDA Staff sent Hill additional requests for information required to facilitate Hill & Crawford's resignation from the MFDA and confirm the extent to which Hill & Crawford was fulfilling its regulatory and financial obligations pending the completion of the resignation process. MFDA Staff requested responses from Hill & Crawford on or before April 3, 2009 but no responses were received. Subsequently, MFDA Staff sent follow-up requests for the information.

74. The Respondents failed to provide sufficient or timely responses to the requests of MFDA Staff and, in particular, failed to provide information required to demonstrate that the Respondents had an adequate plan to facilitate Hill & Crawford's resignation.

75. Consequently, on April 22, 2009, a Hearing Panel granted an application brought by MFDA Staff for an Order pursuant to s. 24.3 of MFDA By-law No. 1 immediately suspending the authority of the Respondents to conduct securities related business and deal with members of the public.

NOTICE is further given that the Respondents Hill and Hill & Crawford shall be entitled to appear and be heard and be represented by counsel or agent at the hearing and to make submissions, present evidence and call, examine and cross-examine witnesses.

NOTICE is further given that MFDA By-laws provide that if, in the opinion of the Hearing Panel, a Member:

- has failed to carry out any agreement with the MFDA;

- has failed to meet any liabilities to another Member or to the public;
- has engaged in any business conduct or practice which the Hearing Panel in its discretion considers unbecoming a Member or not in the public interest;
- has ceased to be qualified as a Member by reason of the ownership, integrity, solvency, training or experience of the Member or any of its Approved Persons or other employees or agents, or any person having an ownership interest in the capital or indebtedness of the Member;
- has failed to comply with or carry out the provisions of any of the By-laws, Rules or Policies of the MFDA; or
- has failed to comply with or carry out the provisions of any applicable federal or provincial statute relating to its business or of any regulation or policy made pursuant thereto;

the Hearing Panel has the power to impose any one or more of the following penalties:

(a) a reprimand;

(b) a fine not exceeding the greater of:

(i) $5,000,000.00 per offence; and

(ii) an amount equal to three times the profit obtained or loss avoided by the Member as a result of committing the violation;

(c) suspension of the rights and privileges of the Member (and such suspension may include a direction to the Member to cease conducting securities related business) for such specific period and upon such terms as such Hearing Panel may determine, or, if the rights and privileges have already been suspended under Section 24.3, the continuation of such suspension (including a prohibition on the Member conducting securities related business) for such specified period and upon such terms as such Hearing Panel may determine;

(d) termination of the rights, privileges and Membership of the Member;

(e) expulsion of the Member from the MFDA;

(f) such terms and conditions on Membership of the Member as may be considered appropriate by the Hearing Panel;

(g) imposition of a monitor to oversee and/or report on the Member's activities; and

(h) directions for the orderly transfer of client accounts from the Member.

NOTICE is further given that MFDA By-laws provide that if, in the opinion of the Hearing Panel, an Approved Person:

- has failed to carry out any agreement with the MFDA;
- has failed to comply with or carry out the provisions of any federal or provincial statute relating to the business of the Member or of any regulation or policy made pursuant thereto;
- has failed to comply with the provisions of any By-law, Rule or Policy of the MFDA;
- has engaged in any business conduct or practice which such Regional Council in its discretion considers unbecoming or not in the public interest; or
- is otherwise not qualified whether by integrity, solvency, training or experience,

the Hearing Panel has the power to impose any one or more of the following penalties:

(a) a reprimand;

(b) a fine not exceeding the greater of:

(i) $5,000,000.00 per offence; and

(ii) an amount equal to three times the profit obtained or loss avoided by such person as a result of committing the violation;

(c) suspension of the authority of the person to conduct securities related business for such specified period and upon such terms as the Hearing Panel may determine;

(d) revocation of the authority of such person to conduct securities related business;

(e) prohibition of the authority of the person to conduct securities related business in any capacity for any period of time;

(f) such conditions of authority to conduct securities related business as may be considered appropriate by the Hearing Panel;

NOTICE is further given that the Hearing Panel may, in its discretion, require that the Respondents or either Respondent pay the whole or any portion of the costs of the proceedings before the Hearing Panel and any investigation relating thereto.

NOTICE is further given that each Respondent must **serve** a **Reply** on Enforcement Counsel and any other party named in the Notice of Hearing and **file** a **Reply** with the Corporate Secretary within twenty (20) days from the date of service of this Notice of Hearing.

A **Reply** shall be **served** upon Enforcement Counsel at:

Mutual Fund Dealers Association of Canada
121 King Street West
Suite 1000
Toronto, ON M5H 3T9
Attention: Shelly Feld
Fax: 416-361-9073
Email: sfeld@mfda.ca

A **Reply** shall be **filed** by:

(a) providing 4 copies of the **Reply** to the Corporate Secretary by personal delivery, mail or courier to:

The Mutual Fund Dealers Association of Canada
121 King Street West
Suite 1000
Toronto, ON M5H 3T9
Attention: Office of the Corporate Secretary ; or

(b) transmitting 1 copy of the **Reply** to the Corporate Secretary by fax to fax number 416-361-9781, provided that the Reply does not exceed 16 pages, inclusive of the covering page, unless the Corporate Secretary permits otherwise; or

(c) transmitting 1 electronic copy of the **Reply** to the Corporate Secretary by e-mail at CorporateSecretary@mfda.ca.

A **Reply** may either:

(a) specifically deny (with a summary of the facts alleged and intended to be relied upon by the Respondent, and the conclusions drawn by the Respondent based on the alleged facts) any or all of the facts alleged or the conclusions drawn by the MFDA in the Notice of Hearing; or

(b) admit the facts alleged and conclusions drawn by the MFDA in the Notice of Hearing and plead circumstances in mitigation of any penalty to be assessed.

NOTICE is further given that the Hearing Panel may accept as having been proven any facts alleged or conclusions drawn by the MFDA in the Notice of Hearing that are not specifically denied in the **Reply**.

NOTICE is further given that if either Respondent fails:

(a) to **serve** and **file** a **Reply;** or

(b) attend at the hearing specified in the Notice of Hearing, notwithstanding that a **Reply** may have been served,

the Hearing Panel may proceed with the hearing of the matter on the date and the time and place set out in the Notice of Hearing (or on any subsequent date, at any time and place), without any further notice to and in the absence of that Respondent, and the Hearing Panel may accept the facts alleged or the conclusions drawn by the MFDA in the Notice of Hearing as having been proven to the extent that such allegations concern that Respondent and may impose on that Respondent any of the penalties described in the By-Laws.

End.