



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: Alfonso Chin

NOTICE OF HEARING

NOTICE is hereby given that a first appearance will take place by teleconference before a hearing panel of the Central Regional Council (the “Hearing Panel”) 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 February 18, 2014 at 12:00 p.m. (Eastern), or as soon thereafter as the appearance can be held, concerning a disciplinary proceeding commenced by the MFDA against Alfonso Chin (the “Respondent”).

DATED this 20th day of December, 2013.

“Bernadette Devine”

Bernadette Devine
Assistant Corporate Secretary

Mutual Fund Dealers Association of Canada
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Toronto, Ontario
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NOTICE is further given that the MFDA alleges the following violations of the By-laws, Rules or Policies of the MFDA:

Allegation #1: Between 2006 and 2011, the Respondent engaged in securities related business that was not carried on for the account and through the facilities of the Member by selling, recommending, referring or facilitating the sale of at least \$3,105,000 of investments in a mortgage investment corporation to 2 clients and 11 other individuals outside the Member, contrary to MFDA Rules 1.1.1(a) and 2.1.1.

Allegation #2: Between 2006 and 2011, the Respondent had and continued in another gainful occupation that was not disclosed to and approved by the Member, by selling, recommending, referring or facilitating the sale of at least \$3,105,000 of investments in a mortgage investment corporation to 2 clients and 11 other individuals, contrary to MFDA Rules 1.2.1(d)¹ and 2.1.1.

Allegation #3: Between 2006 and 2011, the Respondent received at least \$102,053.56 in referral fees or other compensation for selling, recommending, referring or facilitating the sale of investments in a mortgage investment corporation to 2 clients and 11 other individuals, thereby participating in a referral arrangement in relation to securities related business to which the Member was not a party, contrary to the requirements of sections 13.7 and 13.8 of National Instrument 31-103, and MFDA Rules 2.4.2 and 2.1.1.

PARTICULARS

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

Registration History

1. Between January 10, 1997 and April 26, 2012, the Respondent was registered in Ontario as a mutual fund salesperson with Quadrus Investment Services Ltd. (“Quadrus”), a Member of

¹ Effective December 2, 2010, MFDA Rule 1.2.1(d) was renumbered to 1.2.1(c).

the MFDA. On or about April 26, 2012, the Respondent was terminated by Quadrus as a result of the events described herein.

2. The Respondent is not currently registered in the securities industry in any capacity.
3. During the material time, the Respondent was also licensed in Ontario as a life insurance agent with London Life Insurance Company (“London Life”) and CHC Financial Planning Concepts Inc.
4. During the material time, the Respondent conducted mutual fund business from a Quadrus branch office in Mississauga, Ontario. The Respondent resides in Mississauga, Ontario.

Allegation #1 – Securities Related Business Outside the Member

5. On January 11, 2012, Staff became aware of the Respondent’s conduct following receipt of a report submitted by Quadrus through the MFDA’s Member Events Tracking System (“METS”), in accordance with MFDA Policy No. 6, that the Respondent had an undisclosed outside business activity.

Lexxco Investment Corporation

6. According to its marketing materials, Lexxco Investment Corporation² (“Lexxco”) is a private company that carries on business lending monies to real estate owners and developers and funds those loans by issuing promissory notes to investors. The promissory notes have terms between one to three years and pay interest monthly or annually at rates between 7 to 12 per cent annually (the “Lexxco Investment”).

7. According to Lexxco’s website:

We are a diversified, financial solution mediator. Lexxco has been a premier provider of real estate investment opportunities to investors in the GTA since 1997. The foundation of our service is the depth of our local market knowledge. Our 14 year history of maintaining investor-borrower

² Lexxco is also known as Lexxco Mortgage Investment Corporation; and ILC Corporation.

relationship in local markets its enables us to be the best information source for investors locally. We specialize in tax minimization, investment advisors for clients, brokerage and related professional services. Lexcco seamlessly integrates next-generation thought leadership with best-of-breed methodologies, technology & human capital.

Our investment consultants and loan professionals are able to provide clients with an unparalleled perspective on investment as well as on the lending side of real estate market locally and regionally. Included in our activities, but not limited to have been transaction involving shopping centers, office and industrial buildings, apartment properties, single tenant, net-lease properties, hotel / motels, senior housing facilities, self-storage and land, in addition to the more traditional mortgage arrangement / financing mediation. Lexcco has established itself in real estate on the GTA level.

With years of experience advising investors in real estate market, the company has established a truly superior record of knowledge. We have been trusted advisors for institutional and private investors. Our success over the years is the broad base of experience that we enjoy at Lexcco. Our knowledge of the real estate market is comprehensive and cuts across the spectrum of commercial developments and geographic market place in the GTA.

8. Since in or around 2002, the Respondent has known AL, the President and CEO of Lexcco.

9. In April 2009, the Respondent personally invested a total of \$100,000 in the Lexcco Investment. In May 2009, the Respondent received his principal back plus interest of \$602.73.

10. Between 2006 and 2011, the Respondent sold, recommended, referred or facilitated the sale of a total of \$3,105,000 of the Lexcco Investment to 2 Quadrus clients and 11 other individuals (who were London Life insurance clients) and was paid referral fees or compensation in the total amount of \$105,600 on account of those investments.

11. During the course of Staff's investigation, the Respondent provided the following information to Staff with respect to the Quadrus clients and other individuals who purchased the Lexcco Investment from or through the Respondent (the "Lexcco Investors"):

Lexcco Investor	Date of investment(s)	Amount(s) Invested	Amount(s) Repaid to Investor	Client	Respondent's Compensation
RH&DH	2006	\$700,000	\$387,525	No	2006 - \$30,000
	2008-2009	\$450,000	\$124,008		2008 - \$16,000
					2009 - \$30,000
BH&MH	2006	\$100,000	2010 - \$22,500	No	2006 - \$4,000

	2009	Reinvested \$100,000 plus \$150,000	2011 - \$22,500		2009 - \$10,000
PP	2007	\$100,000	2010 – \$100,000 plus interest (unknown)	No	2007 - \$4,000
JS&LA	2008	\$230,000	2009 - \$19,941	No	2008 - \$9,200
			2010 - \$19,941		2010 – unknown*
	2011	Reinvested \$230,000 plus \$130,000	2011 - \$19,941		2011 – unknown*
LD	2008	\$60,000	2009 - \$5,196	Yes	2008 - \$2,400
			2010 - \$5,196		
	2011	Reinvested \$45,000 and withdrew \$15,000	2011 - \$5,196 2011 - \$15,000		
CV	2010	\$300,000	2010 - \$25,500	No	Unknown*
	2011	40,000	2011 – \$19,125		
JW	2010	\$100,000	None	No	Unknown*
ME	2011	\$410,000	2011 - \$19,731	No	Unknown*
LFC		\$200,000	None	No	Unknown*
MC	2011	\$150,000	None	Yes	Unknown*
Totals		\$3,105,000	\$812,000	2	\$105,600³

* = the Respondent stated that after 2009 he suspended invoicing Lexxco for personal reasons but intended to resume at a later date. Staff was unable to determine the timing and amount of the compensation, if any, received by the Respondent in respect of these particular investments.

12. The Respondent acted as an intermediary between Lexxco and the Lexxco Investors by, among other things:

(a) completing the applicable Lexxco documentation with the Lexxco Investors;

³ The Respondent subsequently produced documents showing that he had received exactly \$102,053.56, exclusive of the unknown amounts.

- (b) delivering completed Lexxco documentation and investment monies to Lexxco on behalf of the Lexxco Investors; and
- (c) delivering the promissory notes issued by Lexxco to the Lexxco Investors.

13. The Respondent did not seek or obtain approval from Quadrus to sell the Lexxco Investment. The Respondent did not disclose to Quadrus that the Respondent was selling, recommending, referring or facilitating the sale of the Lexxco Investment to clients or other individuals.

14. The Lexxco Investment was not a product approved by Quadrus for sale by its Approved Persons, including the Respondent. The transactions in respect of the Lexxco Investment were not processed for the account or through the facilities of Quadrus. Quadrus did not have a referral arrangement with Lexxco.

15. In July 2011, several Lexxco Investors did not receive their scheduled interest payments and contacted the Respondent. In response, the Respondent contacted AL and arranged for the interest payments to be made.

16. In early August 2011, the Financial Services Commission of Ontario (“FSCO”) issued an Order freezing the assets and trust monies of Lexxco on the grounds that the public may be adversely affected by the activities of Lexxco. Lexxco had been licensed as a mortgage administrator with the FSCO since January 30, 2009.

17. On October 27, 2011, AL was arrested and subsequently charged with 12 counts of fraud over \$5,000. The police had determined that Lexxco was a Ponzi scheme; that AL was using monies from new investors to make payments to existing investors; and that AL was also using investor monies for his own personal use.

18. On October 31, 2011, Lexxco Investor CV contacted the Respondent after reading the media reports about AL’s arrest and Lexxco’s legal and financial difficulties. By letter dated November 3, 2011, the Respondent advised the Lexxco Investors that he had become aware that

AL had been arrested and charged with several counts of fraud. The Respondent denied having any knowledge that AL was operating a Ponzi scheme.

19. As set out in the chart above, of the total amount of \$3,105,000 invested by the Lexxco Investors, the Respondent believed only approximately \$812,000 was repaid to them.

20. In or around February 2012, Lexxco Investors BH&MH, RH&DH and JS&LA commenced civil proceedings against the Respondent in respect of the Lexxco Investment.

21. In or around August 2013, Lexxco Investor CV commenced a civil proceeding against the Respondent in respect of the Lexxco Investment.

22. By engaging in the conduct described above, the Respondent engaged in securities related business that was not carried on for the account and through the facilities of Quadrus by selling, recommending, referring or facilitating the sale of the Lexxco Investment to 2 Quadrus clients and 11 other individuals outside Quadrus, contrary to MFDA Rules 1.1.1(a) and 2.1.1.

Allegation #2 – Undisclosed Dual Occupation

23. In the event the activity described in Allegation #1 did not constitute securities related business, then the Respondent had and continued in another gainful occupation in respect of that same conduct that was not disclosed to and approved by Quadrus, contrary to MFDA Rules 1.2.1(d) and 2.1.1.

Allegation #3 – Referral Fees

24. By receiving referral fees in the amount of at least \$102,053.56 from Lexxco in relation to sales or referrals of the Lexxco Investment pursuant to a referral arrangement with Lexxco to which Quadrus was not a party and which did not otherwise comply with the requirements of sections 13.7 and 13.8 of National Instrument 31-103 and MFDA Rule 2.4.2, the Respondent participated in a referral arrangement contrary to sections 13.7 and 13.8 of National Instrument 31-103, and MFDA Rules 2.4.2 and 2.1.1.

NOTICE is further given that the Respondent 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, the Respondent:

- 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 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 the Respondent must **serve a Reply** on Enforcement Counsel 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, Ontario
M5H 3T9
Attention: Michelle Pong
Fax: 416-361-9073
Email: mpong@mfd.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, Ontario
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@mfd.ca.

A **Reply** may either:

- (i) 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
- (ii) 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 the 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 the 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 and may impose any of the penalties described in the By-laws.

END.

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