



Notice of Hearing

File no: 200509

**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: STEPHAN HEADLEY

NOTICE OF HEARING

NOTICE is hereby given that that a first appearance will take place before a Hearing Panel (the "Hearing Panel") of the Regional Council of the Ontario 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 Wednesday, October 26, 2005, at 10:00 a.m. (EST) or as soon thereafter as the hearing can be held, concerning a disciplinary proceeding commenced by the MFDA against Stephan Headley (the "Respondent").

DATED at Toronto, Ontario this 8th day of September, 2005.

"Gregory J. Ljubic"

Gregory J. Ljubic
Corporate Secretary

Mutual Fund Dealers Association of Canada
121 King St. West, Suite 1000
Toronto, ON
M5H 3T9
Telephone: (416) 943-5836
E-mail: gljubic@mfd.ca

NOTICE is further given that the MFDA alleges that the Respondent engaged in the following misconduct contrary to the By-laws, Rules or Policies of the MFDA:

Allegation #1: Between April 2003 and February 2004, the Respondent misappropriated the total amount of approximately \$155,000 obtained from his clients NL and IB and during that time period he failed to return or truthfully account for these monies, thereby, failing to deal fairly, honestly and in good faith with NL and IB, contrary to MFDA Rule 2.1.1.

Allegation #2: Commencing in or around November 2004, the Respondent failed to produce for inspection and provide copies of documents and information requested by the MFDA for the purpose of investigating a complaint made against the Respondent, contrary to s. 22.1 of MFDA By-law No. 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. From July 9, 1997 to September 16, 2002, the Respondent was registered in Ontario as a mutual fund salesperson with two mutual fund dealers in succession.
2. From September 16, 2002 to February 25, 2004, the Respondent was registered in Ontario as a mutual fund salesperson for Worldsource Financial Management Inc. (the “Member”), a Member of the MFDA. During that period, the Respondent worked at the branch of Worldsource located at 5045 Orbitor Drive, Building #11, Suite 200 in Mississauga, Ontario. On February 25, 2004, the Respondent was terminated for cause as a result of the matters described herein. Since February 25, 2004, the Respondent has not been registered in the securities industry in any capacity.
3. The Member has been a Member of the MFDA since June 20, 2002.

The Respondent's Conduct

4. As described in greater detail below, between April 2003 and February 2004, the Respondent misappropriated approximately \$155,000 that he received from his clients, NL and IB, to be invested on their behalf by depositing the funds into bank accounts controlled by him.

5. The Respondent failed to return or truthfully account for any of the misappropriated funds until February 2004 after the clients made formal complaints.

Client NL

6. NL is now 35 years old. She was a client of the Respondent from March 17, 2003 until his termination by the Member on February 25, 2004.

7. NL began dealing with the Respondent after she received an inheritance that she wanted to invest. Her primary investment objective was growth.

8. On April 22, 2003, NL gave the Respondent a cheque in the amount of \$77,000 drawn on NL's personal bank account for the purpose of purchasing mutual fund investments on her behalf. At the direction of the Respondent, the cheque was made payable to "Laers Inc." The memo line on the cheque contained the notation "to invest on my behalf".

9. Laers Inc. is a corporation that was incorporated in the province of Ontario on June 14, 2002. The Respondent is President and serves as a director of Laers Inc.

10. The Respondent deposited the April 22, 2003 cheque received from NL into a bank account that he controlled and not into the Worldsource trust account. He did not use the funds to purchase any investments for the benefit of NL.

11. Subsequently, the Respondent advised NL to borrow additional funds to invest. On the basis of the Respondent's advice, NL obtained a personal line of credit from her bank that was secured by a mortgage on her home. The Respondent assured NL that the

return that she would earn on her investment would exceed the cost of borrowing the additional funds.

12. On June 19, 2003, the Respondent obtained a second cheque from NL in the amount of \$70,000. In accordance with the Respondent's advice, the second cheque was drawn on NL's personal line of credit and was payable to "CMG in Trust" (referring to Capital Management Group or CMG-Worldsource Financial Services Inc., the former name of the Member) for the purpose of purchasing mutual fund investments on her behalf. The memo line on the cheque contained the notation "to invest on my behalf".

13. On July 2, 2003, the Respondent deposited the cheque into his personal bank account. The Respondent did not use the funds to purchase any investments for the benefit of NL.

14. In October 2003, NL expressed concerns to the Respondent about the fact that she had not received any trade confirmations, account statements or other notification concerning the status of her investments.

15. In November 2003, NL received an unsigned letter dated November 3, 2003 on letterhead of Transamerica Life Canada purporting to confirm receipt of two deposits from NL on July 3, 2003 in the amount of "\$70,000 / \$70,000".

16. NL became suspicious following receipt of the November 3, 2003 letter because the letter:

- (a) did not accurately reflect the amounts that had been invested;
- (b) did not record the separate dates on which investments had been made; and
- (c) was not signed.

17. Transamerica Life Canada never received the funds referred to in the letter and did not prepare or send the November 3, 2003 letter.

18. Shortly after receiving the November 3, 2003 letter, NL asked the Respondent to return her money to her.

19. The Respondent did not return the money to NL and he tried to discourage NL from pursuing her request to obtain her money back.

20. In January or February 2004, NL informed the Respondent that she was contemplating the possibility of filing a formal complaint concerning his conduct and the commencement of legal proceedings against him to recover her money.

21. Between February 9, 2004 and March 3, 2004, the Respondent repaid the monies that NL had given to him to invest by providing her with two bank drafts and a personal cheque amounting to a total of \$151,930.

Client IB

22. IB is a real estate agent who is now 63 years old. She was a client of the Respondent from the fall of 2002 until his termination by the Member on February 25, 2004 after IB filed a complaint with the Member concerning the Respondent's conduct as described below.

23. On or about October 28, 2003, the Respondent accepted a cheque from IB in the amount of \$8,000 payable to "WFM In Trust". Based on the advice of the Respondent, IB provided the \$8,000 cheque to the Respondent to be invested in a Guaranteed Investment Certificate ("GIC"). The Respondent told IB that the recommended GIC investment would earn an annual return of 8%. IB instructed the Respondent to purchase the GIC on her behalf on November 1, 2003.

24. On November 5, 2003, the Respondent deposited the cheque into his personal bank account. The Respondent did not use the funds to purchase a GIC or any other investments for the benefit of IB.

25. Between November 2003 and February 2004, IB made multiple inquiries to the Respondent about the status of her \$8,000 investment with the Member. In December 2003, IB began to express concerns to the Respondent about the fact that she had not received any type of receipt, account statement or other notification concerning the status of her October 28, 2003 investment with the Member.

26. On February 18, 2004, IB still had not received any documentation from the Respondent about the status of her investment. As a result, she submitted a complaint to the Member and requested that the Member return the money that she had invested.

27. On February 20, 2004, after her complaint was received by the Member, the Respondent made a direct deposit of \$8,040 into the account of IB for the purpose of repaying the investment funds that he had received from the Respondent.

28. When the Member discovered that the Respondent deposited the money received from IB into his personal bank account contrary to the policies and procedures of the Member, the Member immediately terminated the Respondent's mutual fund registration for cause.

Failure To Provide Documents & Information Requested By The MFDA

29. In March 2004, the MFDA commenced a formal investigation into the conduct of the Respondent after NL filed a formal complaint with the MFDA and the MFDA received notification of the Respondent's termination for cause by the Member.

30. By letter dated November 3, 2004, Staff of the MFDA ("Staff") issued a request for documents and information to counsel for the Respondent pursuant to MFDA By-law No. 1, s. 22.1. Among other things, Staff requested relevant bank statements, banking transaction documentation and cancelled cheques associated with the Respondent's bank accounts and copies of the Respondent's records concerning his dealings with NL and IB. In the letter, Staff imposed a deadline of November 17, 2004 for the production of the requested documentation and information.

31. On November 17, 2004, counsel for the Respondent requested an extension of time for the production of the documentation and information.

32. Staff granted an extension to December 2, 2004.

33. On December 1, 2004, the Respondent requested a further extension to enable him to retain new counsel.

34. The MFDA granted a second extension to December 10, 2004.
35. By letter dated December 8, 2004, the Respondent requested a third extension because he claimed that he was having difficulty retaining new counsel.
36. Staff granted a third extension to January 14, 2005 but informed the Respondent that no additional extensions would be forthcoming.
37. By letter dated January 11, 2005, the Respondent informed Staff that he had decided to “leave the investment industry and [his] practice as a financial advisor.” He did not provide any of the requested documentation or information.
38. By letter dated January 14, 2005, Staff informed the Respondent that in spite of his decision to leave the investment industry, he remains subject to the jurisdiction of the MFDA and is obligated to produce the requested documentation and information. The Respondent was informed that if he failed to produce the requested documentation and information by January 24, 2005, the MFDA would consider initiating disciplinary proceedings against him.
39. The Respondent still has not provided the MFDA with the documentation and information that was initially requested in the November 3, 2004 letter to his counsel, contrary to the repeated requests made by the MFDA pursuant to s. 22.1(b) of By-law No. 1. The Respondent has failed to provide any satisfactory justification for his failure to comply with the requests of Staff.

NOTICE is further given that the Respondent shall be entitled to appear and be heard and be accompanied by counsel or agent at the hearing and to 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 has twenty (20) days from the date of service of this Notice of Hearing, to serve a **Reply** upon:

Mutual Fund Dealers Association of Canada
121 King St. West
Suite 1000
Toronto, Ontario
M5H 3T9
Attention: Shelly Feld, Enforcement Counsel

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 the Respondent is required to file the **Reply** within twenty (20) days from the date of service of this Notice of Hearing. The **Reply** shall be filed by:

- (a) providing 4 copies of the **Reply** to the Secretary by personal delivery, mail or courier; or
- (b) transmitting 1 copy of the **Reply** to the Secretary by fax, provided that the Reply does not exceed 16 pages, inclusive of the covering page, unless the Secretary permits otherwise.

NOTICE is further given that if the Respondent fails:

- (a) to serve 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.

Docs #56264
End.