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: Joseph Zollo

SETTLEMENT AGREEMENT

I. INTRODUCTION

1. By Notice of Settlement Hearing dated February 23, 2007, the Mutual Fund Dealers Association of Canada (the "MFDA") announced that it proposed to hold a hearing to consider whether, pursuant to section 24.4 of By-law No. 1, the MFDA should accept the settlement agreement (the "Settlement Agreement") entered into between Staff of the MFDA ("Staff") and Joseph Zollo (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 a 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" on the basis of the facts set out in Part IV herein.

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 MFDA.

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 paragraph 58) 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. From August 1993 to October 2004, the Respondent was registered in Ontario as a mutual fund salesperson for Worldsource Financial Management Inc. ("Worldsource"). Worldsource became a member of the MFDA on June 20, 2002.

7. On October 12, 2004, the Respondent was terminated for cause by Worldsource as a result of the events described herein. He is not currently registered in the securities industry in any capacity.

The Parties

8. Nu-World Opportunities Inc. (Nu-World) is an Ontario company incorporated on August 4, 2000. The Respondent and Peter Voudouris ("Voudouris") are the directors of Nu-World.

9. Monetary Financial Holdings Inc. ("Monetary") is an Ontario company incorporated on January 31, 2003. The Respondent is the president and a director of Monetary. Harp Singh ("Singh") is the secretary and a director of Monetary.

10. OTBT Financial Corp. ("OTBT") is a Canadian company incorporated on February 4, 2003. The Respondent and Singh are the only directors of OTBT. OTBT provides investment advice to Nu-World. OTBT is wholly owned by Monetary.

11. Alta Vista Financial Management Inc. ("Alta Vista") is an Ontario company incorporated on July 23, 1998. The Respondent is the president, treasurer and a director of Alta Vista. Carmela Zollo, the Respondent's spouse, is the secretary of Alta Vista.

12. Voudouris & Zollo ("*Voudouris & Zollo*") is a partnership between the Respondent and Voudouris which provides accounting services.

13. At no time did the Respondent advise Worldsource that he was affiliated with Nu-World, Monetary or OTBT nor did he disclose the activities carried on by these companies.

The Nu-World BMO Account

14. On October 5, 2000, Nu-World opened a margin account with BMO Investorline Inc. (the "Nu-World BMO Account"). Carmela Zollo and the Respondent's registered assistant at Worldsource were listed as the sole authorized trading officers on the Nu-World BMO Account.

15. Between 2003 and October 2004, 49 mutual fund clients contributed, collectively, $1,500,000, more or less, to the Nu-World BMO Account. In addition, Carmela Zollo and Voudouris each contributed $25,000 to the Nu-World BMO Account.

16. The Respondent invested the monies in the Nu-World BMO Account in various securities, ranging from common shares of reporting issuers listed on recognized stock exchanges to unsecured loans to privately held companies and individuals. At no time was the Respondent registered with the Ontario Securities Commission (the "OSC") as an Investment Counsel/Portfolio Manager or to advise or trade in securities, other than as a mutual fund salesperson.

17. Although the Respondent was not one of the authorized trading officers on the Nu-World BMO Account, he made all of the investment decisions in the account without consulting with the mutual fund clients and executed all of the trades by way of online account access.

18. From time to time, the Respondent provided the mutual fund clients with statements showing the value of their investments in the Nu-World BMO Account.

19. The mutual fund clients were not informed of the investments being made through the Nu-World BMO Account and were not informed in writing of the risks associated with these investments.

20. The Respondent did not collect relevant Know-Your-Client information specific to the Nu-World investment nor did he conduct suitability reviews for all of the mutual fund clients who contributed to the Nu-World BMO Account.

21. The Respondent charged investors a monthly administration fee (the "Administration Fee") of 0.3% of the total amount invested. The Administration Fee was paid from the Nu-World BMO Account to Alta Vista. Between December 2003 (when

the mutual fund clients first contributed to Nu-World) and September 2004, Alta Vista received approximately $80,000 in Administration Fees from Nu-World.

22. The Respondent also charged a performance fee (the "Performance Fee") of 30% on any returns over 15% generated in the Nu-World BMO Account. The Performance Fee was paid from the Nu-World BMO Account to OTBT. Between 2003 and September 2004, OTBT received a total of $155,981.20 in Performance Fees from Nu-World. Of this amount, $125,000 was transferred from OTBT to Monetary.

23. The method of calculating the fees and the total amount of fees withdrawn from the Nu-World BMO Account were not disclosed in writing to all the clients.

24. On October 18, 2004, further to discussions with the MFDA and the OSC, the Respondent voluntarily directed BMO Investorline Inc. to stop accepting trading instructions for the Nu-World BMO Account without prior written approval of the OSC. There have been no transactions in the Nu-World BMO Account since that time.

25. On October 31, 2004, the net assets of Nu-World totaled $1,708,162.85, which consisted of $1,690,375.28 of Canadian cash and equities and ($325,436.45) of United States cash, as well as promissory notes totaling $338,210.39 purporting to represent unsecured loans to various privately held companies and individuals (including the loans set out in more detail in paragraphs 40-43 below).

26. The Respondent did not disclose the existence of, or any of the activity relating to, the Nu-World BMO Account to Worldsource.

The Monetary BMO Account

27. On July 6, 2003, Monetary opened an account with BMO Investorline Inc. (the "Monetary BMO Account"). Between February 2004 and March 2004, two of the Respondent's mutual fund clients loaned, collectively, $42,000 to Monetary. These funds

were deposited into the Monetary BMO Account. Monetary provided unsecured promissory notes to the mutual fund clients in respect of the loans. These promissory notes were signed by the Respondent on behalf of Monetary and carried a fixed rate of interest of 6% or 8% per annum.

28. The Respondent invested the monies in the Monetary BMO Account in various common shares of reporting issuers listed on recognized stock exchanges.

29. The Respondent made all of the investment decisions in the Monetary BMO Account without consulting with the mutual fund clients and he executed all of the trades in the Monetary BMO Account by way of online account access. At no time was the Respondent registered with the OSC as an Investment Counsel/Portfolio Manager or to advise or trade in securities, other than as a mutual fund salesperson.

30. The mutual fund clients were not informed of the types of investments being made through the Monetary BMO Account and were not informed of the risks associated with these investments.

31. The Respondent did not collect relevant Know-Your-Client information specific to the Monetary investment nor did he conduct suitability reviews for the two mutual fund clients who loaned money to Monetary. [Note: I tracked the revised language from para. 20.]

32. As noted above in paragraph 22, $125,000 of the Performance Fee charged to the Nu-World BMO Account was eventually transferred to Monetary. This amount was deposited to the Monetary BMO Account.

33. On October 18, 2004, further to discussions with the MFDA and the OSC, the Respondent voluntarily directed BMO Investorline Inc. to stop accepting trading instructions for the Monetary BMO Account without prior written approval of the OSC. There have been no transactions in the Monetary BMO Account since that time.

34. On October 31, 2004, the assets in Monetary BMO Account consisted of $141,714.99 of Canadian cash and equities and $80,182.42 in United States cash and equities.

35. The Respondent did not disclose the existence of, or any of the activity relating to, the Monetary BMO Account to Worldsource.

Loans to Alta Vista and *Voudouris and Zollo*

36. In October 2000, the Respondent, on behalf of Nu-World, entered into loan agreements with each of Alta Vista and *Voudouris and Zollo*. The loans were used as operating lines of credit for both Alta Vista and *Voudouris and Zollo*. Each loan was for up to $150,000 and carried a 7% interest rate. On October 31, 2004, the amount outstanding on the loans totaled $121,130.86. These funds were drawn from the margin facility available on the Nu-World BMO Account.

37. The Respondent treated the amounts outstanding on the loans as investments made by Nu-World for the purposes of calculating the Administration Fee on the Nu-World BMO Account. As a result, the effective rate of interest that was being paid on the loans by Alta Vista and Voudouris and Zollo was 3.4%. During this time, the prime rate did not drop below 3.75%.

38. The Respondent did not disclose to the mutual fund clients who had contributed monies to the Nu-World BMO Account that some of those monies were in turn being used to make loans to entities in which the Respondent had a financial interest. In addition, the Respondent did not disclose to the clients that these loans were being made at an effective rate of interest that was less than the prime rate available throughout the entire time the loans were outstanding.

Failure to Comply with Internal Compliance Requirements

39. In December 2001, Worldsource issued Compliance Notice 2001-10 which prohibited its Approved Persons from lending money to or borrowing money from clients.

40. In January 2004, Worldsource issued Compliance Notice 2004-01 which referred to Compliance Notice 2001-10 and further provided that Approved Persons were not permitted to lend money to or borrow money from clients without the prior written approval of Worldsource

41. The Respondent does not recall receiving either Compliance Notice.

Repayment of Funds to Investors

42. In November 2006, following discussions with the MFDA and the OSC, the Respondent finalized a proposal to repay all of the mutual fund clients who contributed money to Nu-World and Monetary (the "Arrangement").

43. The Arrangement required the Respondent to repay to the mutual fund clients their respective pro-rata shares of the cash and market value of all securities held in the Nu-World and Monetary BMO Accounts together with the full amount of all outstanding promissory notes and the accrued interest on those noted, as well as all Performance Fees and Administration Fees paid by Nu-World. The fair market value of these assets on November 17, 2006 (the "Valuation Date") was $2,303,652.08.

44. Pursuant to the Arrangement, the Respondent and Mr. Razagh Vaseghi have each purchased an interest in Nu-World. The Respondent now owns 49% of Nu-World and Mr. Vaseghi owns 51%. Mr. Vaseghi was a mutual fund client of the Respondent and had originally invested in Nu-World.

45. Mr. Vaseghi financed his portion of the purchase price by retaining his interest in Nu-World, totaling $898,737.00 on the Valuation Date. He also contributed an additional $276,125.00. The Respondent financed his portion of the purchase price by obtaining a line of credit from the Bank of Montreal, secured against his interest in the Nu-World BMO Account. The price of the Respondent's portion totaled $1,128,789.00. Both the Respondent and Mr. Vaseghi deposited the funds to WeirFoulds LLP in trust for distribution to the mutual fund clients.

46. Each mutual fund client was sent a letter and an acknowledgement explaining that Nu-World was not in compliance with applicable securities laws and that as a result, their interest in Nu-World was being repurchased by Nu-World. The letter and acknowledgement outlined that the repayment was part of disciplinary proceedings with the MFDA. The letter and acknowledgement advised the mutual fund clients that they should obtain independent legal advice prior to signing the acknowledgement to ensure that they were fully aware of their rights and responsibilities. A similar letter was sent to investors in Monetary.

47. On December 18, 2006, the Arrangement was completed and all of the mutual fund clients have been repaid. Each client has received the full amount of their original purchase, plus an additional return ranging from 1% to 84%.

V. CONDUCT CONTRARY TO THE PUBLIC INTEREST

48. The Respondent admits that he engaged in securities related business outside the facilities of the Member, contrary to MFDA Rule 1.1.1 (a).

49. The Respondent admits that he advised clients and conducted trading in securities contrary to the terms of his registration under the *Securities Act (Ontario)* as a mutual fund salesperson,

(a) thereby engaging the jurisdiction of the Regional Council to impose a penalty on the Respondent pursuant to section 24.1.1(h) of MFDA By-Law No. 1; and
(b) thereby engaging in conduct unbecoming an Approved Person, contrary to MFDA Rule 2.1.1.

50. The Respondent admits that he indirectly borrowed money from his mutual fund clients,

(a) thereby placing his personal interests above those of his clients and giving rise to a conflict of interest, contrary to MFDA Rule 2.1.4;
(b) thereby engaging in conduct unbecoming an Approved Person, contrary to MFDA Rule 2.1.1; and
(c) thereby failing to abide by the Member's policies and procedures regarding conflicts of interest, contrary to MFDA Rule 2.1.1(b).

51. The Respondent admits that he engaged in personal financial dealings with his mutual fund clients by directly or indirectly entering into a joint investment with them,

(a) thereby giving rise to a conflict of interest, contrary to MFDA Rule 2.1.4; and
(b) thereby engaging in conduct unbecoming an Approved Person, contrary to MFDA Rule 2.1.1.

VI. TERMS OF SETTLEMENT

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

(a) The authority of the Respondent to conduct securities related business shall be suspended for a period of three years and six months from the date of the acceptance of this Settlement Agreement by the Hearing Panel; and

(b) In the event that the Respondent resumes employment as a mutual fund salesperson following the conclusion of his suspension, the Respondent shall be subject to an additional period of one year and six months of close supervision upon the commencement of his employment.

VII. STAFF COMMITMENT

53. If this Settlement Agreement is accepted by the MFDA, Staff will not initiate any proceeding under the By-laws of the MFDA against the Respondent in respect of any conduct or alleged conduct of the Respondent in relation to the facts set out in Part IV of this Settlement Agreement, subject to the provisions of paragraph 58 below.

VIII. PROCEDURE FOR APPROVAL OF SETTLEMENT

54. Acceptance of this Settlement Agreement shall be sought at a hearing of the Regional Council of the Central Region of the MFDA on a date agreed to by counsel for Staff and the Respondent.

55. 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 MFDA, 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.

56. Staff and the Respondent agree that if this Settlement Agreement is accepted by the MFDA, then the Respondent shall be deemed to have been penalized by the Regional Council 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.

57. Staff and the Respondent agree that if this Settlement Agreement is accepted by the MFDA, 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.

58. If this Settlement Agreement is accepted by the MFDA and, at any subsequent time, the Respondent fails to comply with any of the Terms of Settlement set out herein, Staff reserves the right to bring proceedings under 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.

59. If, for any reason whatsoever, this Settlement Agreement is not accepted by the MFDA or an Order in the form attached as Schedule "A" is not made by the MFDA, 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.

60. Whether or not this Settlement Agreement is accepted by the MFDA, 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.

IX. DISCLOSURE OF AGREEMENT

61. The terms of this Settlement Agreement will be treated as confidential by the parties hereto until accepted by the MFDA, and forever if, for any reason whatsoever, this Settlement Agreement is not accepted by the MFDA, except with the written consent of both the Respondent and Staff or as may be required by law.

62. Any obligations of confidentiality shall terminate upon acceptance of this Settlement Agreement by the MFDA.

X. EXECUTION OF SETTLEMENT AGREEMENT

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

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

Dated: February 16, 2007

"Sarina Buchel"
Witness- Signature

"Joseph Zollo"
Joseph Zollo

"Mark T. Gordon"
Staff of the MFDA
Per: Mark T. Gordon
Executive Vice-President

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