



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

**IN THE MATTER OF A SETTLEMENT HEARING
PURSUANT TO SECTION 24.4 OF BY-LAW NO. 1 OF
THE MUTUAL FUND DEALERS ASSOCIATION OF CANADA**

Re: Worldsource Financial Management Inc.

SETTLEMENT AGREEMENT

I. INTRODUCTION

1. By Notice of Settlement Hearing, 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, a hearing panel of the MFDA Central Regional Council (the “Hearing Panel”) should accept the settlement agreement (the “Settlement Agreement”) entered into between Staff of the MFDA (“Staff”) and the Respondent Worldsource Financial Management Inc. (the “Respondent”).

II. JOINT SETTLEMENT RECOMMENDATION

2. Staff conducted an investigation of the Respondent’s activities. The investigation disclosed that the Respondent had engaged in activity for which the Respondent could be penalized on the exercise of the discretion of the Hearing Panel pursuant to s. 24.1 of By-law No.1.

3. Staff and the Respondent recommend settlement of the matters disclosed by the investigation in accordance with the terms and conditions set out below. The Respondent agrees to the settlement on the basis of the facts set out in Part IV herein and consents to the making of an Order in the form attached as Schedule “A”.

4. Staff and the Respondent agree that the terms of this Settlement Agreement, including the attached Schedule “A”, will be released to the public only if and when the Settlement Agreement is accepted by the Hearing Panel.

III. ACKNOWLEDGEMENT

5. Staff and the Respondent agree with the facts set out in Part IV herein for the purposes of this Settlement Agreement only and further agree that this agreement of facts is without prejudice to the Respondent or Staff in any other proceeding of any kind including, but without limiting the generality of the foregoing, any proceedings brought by the MFDA (subject to paragraph 45) or any civil or other proceedings which may be brought by any other person or agency, whether or not this Settlement Agreement is approved by the MFDA.

IV. AGREED FACTS

Registration History

6. The Respondent is registered as a Mutual Fund Dealer in all 10 Canadian provinces and as an Exempt Market Dealer in the provinces of Ontario and Newfoundland and Labrador.

7. The Respondent became a Member of the MFDA on May 10, 2002.

The 2004 MFDA Compliance Examination

8. In July 2004, the MFDA completed its first compliance examination of the Respondent (the “2004 Examination”) which included an assessment of compliance by the Respondent with MFDA By-laws, Rules and Policies for the period from February 1, 2003 to January 31, 2004. The 2004 Examination included a review of the Respondent’s head office as well as 3 branch locations. The findings of the 2004 Examination were reported to the Respondent in the MFDA Compliance Examination Report dated July 5, 2004 (the “2004 MFDA Report”).

9. The 2004 MFDA Report identified, among other things, deficiencies relating to the Respondent's failure to establish and implement adequate procedures and controls in the following areas:

- (a) Approval of new accounts;
- (b) Completeness and approval of KYC information and amendments; and
- (c) Excessive trading or switching by Approved Persons in client accounts.

(these three deficiencies are collectively referred to below as the "Deficiencies")

10. The MFDA required the Respondent to describe the steps it had taken, or intended to take, to address all of the deficiencies identified in the 2004 MFDA Report.

11. Between August 2004 and December 2004, the MFDA and the Respondent exchanged communications regarding the Respondent's plans to address the deficiencies in the 2004 MFDA Report.

12. The plans included changes to the Respondent's policies and procedures.

The 2006 Compliance Examination

13. In January, 2006, the MFDA undertook a second compliance examination of the Respondent (the "2006 Examination") which included an assessment of compliance by the Respondent for the period from February 1, 2004 to December 31, 2005. The 2006 Examination included a review of the Respondent's head office as well as 3 branch locations. The findings of the 2006 Examination were reported to the Respondent in the MFDA Compliance Examination Report dated May 26, 2006 (the "2006 MFDA Report").

14. The 2006 MFDA Report identified, among other things, the Deficiencies that were previously identified in the 2004 MFDA Report which had not been fully remedied.

15. The 2006 MFDA Report also identified a pattern of excessive trading conducted by Leo O'Brien, an Approved Person who was subsequently the subject of an MFDA

disciplinary proceeding.¹ Mr. O'Brien was terminated by the Respondent on September 1, 2006.

16. MFDA Compliance Staff referred the results of the 2006 MFDA Report to MFDA Enforcement Staff for possible disciplinary action.

Agreement and Undertaking

17. On April 20, 2007, in consideration of the MFDA foregoing enforcement action, the Respondent signed an Agreement and Undertaking with the MFDA (the "2007 Agreement") in which the Respondent agreed to:

- (a) Develop and implement an action plan (the "Action Plan") to remedy:
 - (i) the Deficiencies; and
 - (ii) certain other deficiencies that had been identified in the 2006 MFDA examination report such as the requirement to properly identify all leveraged accounts on the Respondent's back office system and the obligation to ensure that each client who borrowed money to invest received a copy of an appropriately worded leverage disclosure document; and
- (b) Retain an independent consultant (the "Consultant") at its own expense to test whether the deficiencies described in paragraph 17(a) above had been rectified, identify any new deficiencies and report its findings to the MFDA.

18. The Action Plan that the Respondent prepared to address the Deficiencies required the Respondent to produce certain reports and implement desk audit processes designed to enable the Respondent's compliance staff, through a sampling process, to:

- (a) review for timely approval of new accounts and KYC amendments;
- (b) confirm that the KYC information including KYC amendments are accurately recorded on its back office system; and

¹ On May 15, 2008, the MFDA issued a Notice of Hearing against O'Brien. The allegations concerned excessive trading by O'Brien who had processed 166 switches in 22 client accounts over a 14 month period between April 2005 and June 2006 using limited trading authorizations without obtaining instructions from clients. By Order of the Hearing Panel dated November 25, 2008, O'Brien received a lifetime ban from the mutual fund industry and was ordered to pay a fine of \$60,000 and costs of \$5,000.

(c) identify possible patterns of excessive trading by its Approved Persons.

19. The Consultant retained by the Respondent completed testing in August 2007 and submitted a report to the MFDA dated September 28, 2007 (the “Consultant’s Report”) outlining its findings and recommendations.

20. The Consultant’s Report revealed that although the Respondent had implemented some new procedures in accordance with the Action Plan, the Respondent’s new procedures were insufficient to satisfactorily address the Deficiencies.

21. The Respondent did not initially request a copy of the Consultant’s Report. In November 2007, after the MFDA opened an investigation concerning the findings in the Consultant’s Report, the Respondent requested and obtained a copy of the report.

22. On March 25, 2008, during the course of its investigation, MFDA Enforcement Staff conducted an on-site examination of the Respondent to determine whether the Deficiencies were resolved during the four months following the end of the period examined by the Consultant. The examination covered the period from September 1, 2007 to December 31, 2007. MFDA Enforcement Staff did not report their findings to the Respondent following the examination. MFDA Staff identified the following issues during their testing:

- (a) Desk audits did not contain evidence of timely review, details of follow-up on issues identified, details of resolution of issues identified, or timely follow-up on information requested from Branch Managers/Approved Persons; and
- (b) The Respondent was not producing some of the reports that it had agreed in the Action Plan to produce to review for excessive trading.

Bulk Transfer of Coast Capital Investments’ Accounts

23. On March 4, 2008, the MFDA received a request from Coast Capital Investments for approval to transfer its client accounts and Approved Persons to the Respondent.

24. By letter dated March 17, 2008, the MFDA provided written confirmation to the Respondent that the MFDA was not prepared to approve the proposed transaction as a

result of outstanding compliance issues at the Respondent. The MFDA further advised that once the compliance issues had been satisfactorily addressed, it would reconsider the application.

25. In response, the Respondent informed the MFDA that the Respondent had implemented additional new procedures to address the Deficiencies. The Respondent revised the Action Plan to incorporate its additional new procedures and agreed to retain the Consultant to complete further testing and report to the MFDA.

26. On April 4, 2008, the Consultant completed further testing covering the period from January 1, 2008-February 28, 2008.

27. On April 6, 2008, the Consultant submitted a report to the MFDA (the “2008 Consultant’s Report”). The Consultant’s Report stated that since the Consultant’s first examination, the Respondent had made marked improvements in its desk audit processes, tracking and follow through. However, the Consultant’s testing revealed that the Respondent had not sufficiently resolved the Deficiencies and had not complied fully with the requirements in the Action Plan in that:

(a) Desk audit procedures, designed to review for:

(i) timely approval of new accounts and KYC amendments; and

(ii) completeness of KYC information and amendments

were not being conducted bi-weekly in accordance with the requirements of the Action Plan which resulted in a backlog;

(b) the Respondent had developed but not yet implemented all of the reports agreed to in the Action Plan to review for excessive trading; and

(c) Desk audit procedures were not always performed at the same frequency or within the established sample sizes agreed to in the Action Plan.

Letter from Officers Of The Respondent

28. On April 28, 2008, senior officers of the Respondent signed a letter confirming that the issues described in the 2008 Consultant’s Report had been resolved as follows:

- (a) The backlog in desk audits identified by the Consultant had been cleared;
- (b) The monitoring for excessive trading now included all of the reports described in the 2008 Consultant's Report; and
- (c) Desk audits were being conducted at the same frequency and within the established sample sizes agreed to in the Action Plan.

29. In consideration of the representations in the April 28, 2008 letter from the Respondent's senior officers stating that issues raised in the 2008 Consultant's Report had been resolved, the MFDA approved the Coast Capital transaction subject to terms and conditions.

The 2009 Compliance Examination

30. In January 2009, the MFDA undertook a third compliance examination of the Respondent (the "2009 Examination") which included an assessment of compliance by the Respondent for the period from February 1, 2006 to November 30, 2008. The 2009 Examination included a review of the Respondent's head office as well as 4 branch locations. The findings of the 2009 Examination were reported to the Respondent in the MFDA Compliance Examination Report dated May 25, 2009 (the "2009 MFDA Report").

31. The 2009 MFDA Report identified, among other things, that:

- (a) although the Respondent had implemented many of the procedures that were described in the Action Plan, the Respondent:
 - (i) had not sufficiently resolved the Deficiencies that were previously identified in the 2004 and 2006 MFDA Reports;
 - (ii) was not producing one of the three reports that were agreed to in the Action Plan and described in the 2008 Consultant's Report to identify cases of excessive trading; and

- (iii) was not taking sufficient follow-up action to ensure that cases of non-compliance with regulatory requirements that were identified by means of the desk audits were not repeated;
- (b) the Respondent was not maintaining sufficient evidence of its head office or branch level trade supervision activities for the duration of the period examined; and
- (c) Staff had discovered additional patterns of possible excessive trading by certain Approved Persons of the Respondent.

32. The cases of possible excessive trading identified in the 2009 MFDA Report would have appeared on reports that the Action Plan required the Respondent to produce to monitor for excessive trading if all of those reports had been developed and implemented in accordance with the Action Plan. These cases should have also been reviewed and queried by the Respondent to determine whether such trading patterns did constitute excessive trading.

Additional Facts

33. The Respondent has cooperated with the MFDA's investigation of the matters that form the subject-matter of this Settlement Agreement.

34. Following discussions with MFDA Staff upon the completion of the 2009 Compliance Examination, the Respondent acknowledged its failure to rectify the Deficiencies. Prior to the commencement of enforcement action by the MFDA, the Respondent took the following additional steps to try to rectify the Deficiencies:

- (i) the Respondent voluntarily retained PricewaterhouseCoopers LLP ("PwC") in April, 2009 to assist it with rectifying the remaining Deficiencies at a cost to date of \$225,000;
- (ii) the Respondent undertook an independent review of its compliance structure and resources; and
- (iii) the Respondent developed and implemented additional changes to its systems and controls.

V. CONTRAVENTIONS

35. The Respondent admits that it failed to fully carry out the terms of the 2007 Agreement, thereby engaging the authority of the Hearing Panel to impose a penalty on the Respondent pursuant to section 24.1.2(i) of MFDA By-law No. 1.

36. The Respondent admits that between February 1, 2003 and November 30, 2008, it failed to establish, implement and maintain adequate policies and procedures to address the Deficiencies by:

- (a) ensuring the accuracy, completeness and approval of all KYC information and amendments; contrary to MFDA Rules 2.2.1, 2.2.4, 2.5.3(b), 2.5.4 and MFDA Policy No. 2;
- (b) ensuring that appropriate supervisory staff were completing the timely review and approval of the opening of all new client accounts, contrary to MFDA Rules 2.2.3, 2.5.2(b), 2.5.3(b), 2.5.4 and MFDA Policy No. 2; and
- (c) detecting and preventing patterns of excessive trading and switching in client accounts, contrary to MFDA Policy No. 2.

37. The Respondent admits that between January 1, 2006 and November 30, 2008, the Respondent failed to maintain adequate records of trade supervision that was conducted at both the branch and head office level, including trades reviewed and records of inquiries made, responses received and resolutions achieved, contrary to MFDA Rules 2.2.1, 2.5.1, 2.5.4 and MFDA Policy No. 2.

VI. TERMS OF SETTLEMENT

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

- (a) The Respondent shall pay a fine in the amount of \$50,000, pursuant to section 24.1.2(b);
- (b) The Respondent shall retain PwC as an independent monitor at the Respondent's expense and in accordance with the terms set out in Schedule "B" to resolve:
 - (i) the Deficiencies;

(ii) all other compliance deficiencies identified in the 2009 MFDA Report; and
(iii) any deficiencies that the independent monitor identifies during its review;
pursuant to section 24.1.2(g) of MFDA By-law No. 1;

(c) The Respondent shall pay the costs of this investigation and proceeding in the amount of \$25,000, pursuant to section 24.2 of MFDA By-law No. 1.

39. In accordance with s. 24.4.2(b) of MFDA By-law No. 1, the Respondent acknowledges its obligations to comply with all MFDA By-laws, Rules and Policies, and all applicable securities legislation and regulations made thereunder and to carry out the terms of agreements with the MFDA in the future and in particular the obligation to implement sufficient compliance procedures and controls to ensure compliance with MFDA Rules 2.2, 2.5 and MFDA Policy No. 2.

VII. STAFF COMMITMENT

40. If this Settlement Agreement is accepted by the Hearing Panel, Staff will not initiate any proceeding under the By-laws of the MFDA against the Respondent in respect of the facts set out in Part IV and contraventions described in Part V of this Settlement Agreement, subject to the provisions of paragraph 45 below. Nothing in this Settlement Agreement precludes Staff from investigating or initiating proceedings in respect of any facts and contraventions that are not set out in Parts IV and V of this Settlement Agreement or in respect of conduct of the Respondent that occurred outside the specified date ranges of the facts and contraventions set out in Parts IV and V, whether known or unknown at the time of settlement. Furthermore, nothing in this Settlement Agreement shall relieve the Respondent from fulfilling any continuing regulatory obligations.

VIII. PROCEDURE FOR APPROVAL OF SETTLEMENT

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

42. Staff and the Respondent may refer to any part, or all, of the Settlement Agreement at the settlement hearing. Staff and the Respondent also agree that if this Settlement Agreement is accepted by the Hearing Panel, it will constitute the entirety of the evidence to be submitted respecting the Respondent in this matter, and the Respondent agrees to waive its rights to a full hearing, a review hearing before the Board of Directors of the MFDA or any securities commission with jurisdiction in the matter under its enabling legislation, or a judicial review or appeal of the matter before any court of competent jurisdiction.

43. Staff and the Respondent agree that if this Settlement Agreement is accepted by the Hearing Panel, then the Respondent shall be deemed to have been penalized by the Hearing Panel pursuant to s. 24.1.2 of By-law No. 1 for the purpose of giving notice to the public thereof in accordance with s. 24.5 of By-law No. 1.

44. Staff and the Respondent agree that if this Settlement Agreement is accepted by the Hearing Panel, neither Staff nor the Respondent will make any public statement inconsistent with this Settlement Agreement. Nothing in this section is intended to restrict the Respondent from making full answer and defence to any civil or other proceedings against it.

45. If this Settlement Agreement is accepted by the Hearing Panel and, at any subsequent time, the Respondent fails to comply with any of the terms of the Settlement Agreement, including the *Terms of the Independent Monitor*, Staff reserves the right to bring proceedings under the By-laws of the MFDA against the Respondent and any of its officers or directors based on, but not limited to, the facts set out in Part IV of the Settlement Agreement, as well as the breach of the Settlement Agreement. If such additional enforcement action is taken, the Respondent agrees that the proceeding(s) may be heard and determined by a hearing panel comprised of all or some of the same members of the hearing panel that accepted the Settlement Agreement, if available.

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

47. Whether or not this Settlement Agreement is accepted by the Hearing Panel, the Respondent agrees that it will not, in any proceeding, refer to or rely upon this Settlement Agreement or the negotiation or process of approval of this Settlement Agreement as the basis for any allegation against the MFDA of lack of jurisdiction, bias, appearance of bias, unfairness, or any other remedy or challenge that may otherwise be available.

IX. DISCLOSURE OF AGREEMENT

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

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

X. EXECUTION OF SETTLEMENT AGREEMENT

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

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

Dated: July 8, 2010

“Linda Kenny”

Witness – Signature

“Andrew Mitchell”

Worldsource Financial Management Inc.
Per: Andrew Mitchell, President

Per “Shaun Devlin”

Staff of the MFDA
Per: Shaun Devlin
Vice-President, Enforcement



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

**IN THE MATTER OF A SETTLEMENT HEARING
PURSUANT TO SECTION 24.4 OF BY-LAW NO. 1 OF
THE MUTUAL FUND DEALERS ASSOCIATION OF CANADA**

Re: Worldsource Financial Management Inc.

ORDER

WHEREAS on July , 2010, the Mutual Fund Dealers Association of Canada (the "MFDA") issued a Notice of Settlement Hearing pursuant to section 24.4 of By-law No. 1 in respect of Worldsource Financial Management Inc. (the "Respondent");

AND WHEREAS the Respondent entered into a settlement agreement with Staff of the MFDA, dated [date] (the "Settlement Agreement"), in which the Respondent agreed to a proposed settlement of matters for which the Respondent could be disciplined pursuant to ss. 20 and 24.1 of By-law No. 1;

AND WHEREAS the Hearing Panel is of the opinion that the Respondent has failed to carry out an agreement with the MFDA to rectify compliance deficiencies and has failed to fulfill its obligations to comply with MFDA Rules 2.2.1, 2.2.3, 2.2.4, 2.5.1, 2.5.2(b), 2.5.3(b), 2.5.4 and MFDA Policy No. 2;

IT IS HEREBY ORDERED THAT the Settlement Agreement is accepted, as a consequence of which:

1. The Respondent shall pay a fine in the amount of \$50,000, pursuant to section 24.1.2(b).

2. The Respondent shall retain PricewaterhouseCoopers LLP as an independent monitor at the Respondent's expense and in accordance with the terms set out in Schedule "B" to the Settlement Agreement to resolve:
 - (i) the Deficiencies (as defined in the Settlement Agreement);
 - (ii) all other compliance deficiencies identified in the 2009 MFDA Report; and
 - (iii) any deficiencies that the independent monitor identifies during its review;pursuant to section 24.1.2(g) of MFDA By-law No. 1;

3. The Respondent shall pay the costs of this investigation and proceeding in the amount of \$25,000, pursuant to section 24.2 of MFDA By-law No. 1.

DATED this day of July, 2010.

Per: _____
[Name of Public Representative], Chair

Per: _____
[Name of Industry Representative]

Per: _____
[Name of Industry Representative]



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

**IN THE MATTER OF A SETTLEMENT HEARING
PURSUANT TO SECTION 24.4 OF BY-LAW NO. 1
OF THE MUTUAL FUND DEALERS ASSOCIATION OF CANADA**

Re: Worldsource Financial Management Inc.

TERMS OF THE INDEPENDENT MONITOR

1. In accordance with the terms of the Settlement Agreement dated July 8, 2010 between Worldsource Financial Management Inc. (the "Member") and the Mutual Fund Dealers Association of Canada (the "MFDA") (the "Settlement Agreement"), and the Order of the Hearing Panel dated [date] arising therefrom (the "Order"), the Member:
 - a. Shall establish and implement adequate procedures and controls to resolve the following deficiencies (the "Deficiencies"):
 - i. the failure of the Member to ensure the approval of all new accounts;
 - ii. the failure of the Member to ensure the accuracy, completeness and approval of KYC information and amendments; and
 - iii. the failure of the Member to implement appropriate supervisory procedures to detect and prevent excessive trading or switching in client accounts;
 - iv. the failure of the Member to maintain adequate records of trade supervision that was conducted at both the branch and head office level, including trades reviewed and records of inquiries made, responses received and resolutions achieved; and
 - v. all deficiencies identified in the 2009 MFDA Compliance Examination Report dated May 25, 2009.
 - b. Has retained PricewaterhouseCoopers LLP ("PwC") as an independent consultant (the "Monitor") at the Member's expense, to assist in resolving all of the Deficiencies on the following terms:

- i. The Member has executed a retainer with the Monitor incorporating the requirements of the *Duties and Standards of the Independent Monitor* attached hereto as Appendix “1” (the “Duties and Standards”) and provided a copy of the retainer to MFDA Staff (“Staff”)
 - ii. The Member will fully co-operate with and provide full disclosure to the Monitor in a timely manner of all matters and information relevant to the activities of the Monitor hereunder and in accordance with the terms and conditions of the Duties and Standards; and
 - iii. Staff has approved the selection of the Monitor and the terms of the Member’s retainer of the Monitor.
- c. Shall resolve all of the Deficiencies in accordance with the terms and conditions of the Duties and Standards and on the following terms:
- i. The Member shall cause the Monitor to develop, in collaboration with the Member, a written plan containing proposed actions (and timeframes for implementation of the actions) to remedy the Deficiencies (the “Action Plan”). The Action Plan shall be delivered to Staff, for its approval, by no later than **[To Be Agreed Upon By The MFDA And The Monitor Following Approval Of The Settlement]**;
 - ii. Staff reserves the right to add, delete or change any part of the Action Plan provided that the Member is given a reasonable opportunity to comment on any such addition, deletion or change. Any changes made by Staff become part of the Action Plan;
 - iii. The Member, with the assistance and participation of the Monitor, shall fully implement the actions identified in the Action Plan within the time frames set out therein. The Monitor must review and approve all such actions as being consistent with the Action Plan prior to their implementation. The Monitor may consult informally with the MFDA from time to time on any issues arising from the implementation of the Action Plan;
 - iv. The Member shall cause the Monitor to assess the sufficiency of the Member’s compliance department (the “Compliance Department”), including the number, experience and proficiency of staff, and the internal education and training programs, to ensure that the Member will comply with the implemented Action Plan and the MFDA By-laws, Rules and Policies, and make and provide to the MFDA and the Member its recommendations to address any deficiencies (the “Compliance Department Recommendations”). The Compliance Department Recommendations shall be delivered to Staff , for its approval, by no later than **[To Be Agreed Upon By The MFDA And The Monitor Following Approval Of The Settlement]**;
 - v. Staff reserves the right to add, delete or change any part of the Compliance Department Recommendations provided that the Member is given a

reasonable opportunity to comment on any such addition, deletion or change. Any change made by Staff become part of the Compliance Department Recommendations;

- vi. The Member, with the assistance and participation of the Monitor, shall fully implement the actions identified in the Compliance Department Recommendations within the time frames set out therein. The Monitor must review and approve all such actions as being consistent with the Compliance Department Recommendations prior to their implementation. The Monitor may consult informally with the MFDA from time to time on any issues arising from the implementation of the Compliance Department Recommendations;
- vii. The Monitor shall discuss with the MFDA and may discuss with the Member, its proposed procedures for testing the Member's implementation of the Action Plan and thereafter submit written proposals for testing procedures, time frame for completion of testing and format for a report to the MFDA, for its approval, on the Member's completion of the implementation of the Action Plan and resolution of the Deficiencies (the "Completion Report").
- viii. The MFDA reserves the right to add, delete or change any aspect of the proposed testing procedures, time frame or Completion Report format, provided that the Member will be given a reasonable opportunity to comment on any such addition, deletion or change;
- ix. Once the testing procedures, time frame and Completion Report format have been approved by the MFDA, the Monitor shall complete the testing procedures and provide the Completion Report to the MFDA in the format and within the time frame approved by the MFDA in accordance with subparagraph 1(c)(viii);
- x. Where the Completion Report identifies any continuing Deficiencies, or where prior to the determination by the MFDA that the Deficiencies have been resolved (but after the Completion Report has been provided to the MFDA) the MFDA becomes aware from other sources that there are continuing Deficiencies, the MFDA may in its sole discretion do either or both of the following:
 1. Make recommendations to resolve the continuing Deficiencies identified in the Completion Report and direct the Member to implement all such recommendations and have the Monitor conduct any additional testing within a reasonable time period to be determined by the MFDA;
 2. Pursue additional enforcement action pursuant to Section 24 of MFDA By-law No. 1 with regard to the Member's failure to resolve the Deficiencies.

- xi. The Member shall provide a copy of this Settlement Agreement and *Terms of the Independent Monitor* to all members of its Board of Directors and provide written confirmation of the same to the MFDA within four (4) weeks of the date of signing of this Settlement Agreement.
- xii. The Member shall provide its Board of Directors with copies of the Action Plan and the Completion Report; and
- xiii. The MFDA shall in its sole discretion determine whether it is satisfied that the Deficiencies have been resolved and the Member shall not consider the MFDA satisfied until it has received express written confirmation from the MFDA that the MFDA is satisfied that the Deficiencies have been resolved.

2. Varying of the terms of the *Terms of the Independent Monitor*:

- a. To the extent that there are fixed timelines in these *Terms of the Independent Monitor* or the Action Plan, the MFDA may abridge or extend any time frame as may reasonably be required and with the provision of reasonable notice to the Member;
- b. Other exceptions to the *Terms of the Independent Monitor* are permissible only with the prior express written consent of Staff.

I confirm that by my signature, I am authorized to bind the Member to these *Terms of the Independent Monitor* as part of the implementation of the Settlement Agreement and the Order.

“Andrew Mitchell”

 Name: Andrew Mitchell
 Title: President
 Worldsource Financial Management Inc.

“Linda Kenny”

 Date
 Witness
 Name: Linda Kenny

Mutual Fund Dealers Association of Canada

“Shaun Devlin”

 Shaun Devlin
 Vice-President, Enforcement

July 12, 2010

 Date



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

**IN THE MATTER OF A SETTLEMENT HEARING
PURSUANT TO SECTION 24.4 OF BY-LAW NO. 1
OF THE MUTUAL FUND DEALERS ASSOCIATION OF CANADA**

Re: Worldsource Financial Management Inc.

**DUTIES AND STANDARDS OF
THE INDEPENDENT MONITOR**

A. Defined Terms

1. Terms defined in the *Terms of the Independent Monitor* shall have the same meaning in these *Duties and Standards of the Independent Monitor*.

B. Duties of the Independent Monitor

1. The Monitor shall perform its duties with unimpaired professional judgment and objectivity, and shall be seen to be doing so by a reasonable observer.
2. The Monitor shall be retained and remunerated by the Member.
3. The Monitor shall perform its services in accordance with these *Duties and Standards of the Independent Monitor*.
4. The Monitor:
 - i. Shall notify the MFDA of any disagreement, dispute or other limitation encountered with the Member that may result in the *Terms of the Independent Monitor* not being satisfied. This includes but is not limited to situations where there is a difference of opinion between the Monitor and the Member with regard to:
 1. The detailed nature of the Deficiencies;
 2. The actions necessary to remedy the Deficiencies;
 3. The procedures to be used to test the Member's implementation of the Action Plan.
 - ii. May advise the Member of the results during the testing process;

- iii. Shall prepare the Completion Report in an independent manner without consultation with the Member as to the content of the report; and
- iv. Shall provide the Completion Report directly to Staff, with a copy to the Member.

C. Qualifications of the Independent Monitor

1. The Monitor must exhibit and apply:
 - i. An understanding of MFDA requirements (i.e. By-laws, Rules, Policies, Notices and Bulletins);
 - ii. Familiarity with mutual fund dealer operations and compliance issues; and
 - iii. Familiarity with adequate Member compliance procedures (i.e. the Monitor should not be proposing procedures it develops at first instance without an understanding of procedures compliant Members have instituted to meet MFDA requirements).

D. Action Plan

1. The Action Plan must outline the actions that will remedy the Deficiencies and specific time frames for the completion of those actions.

E. Implementation of the Action Plan

1. The Monitor shall supervise the implementation of the Action Plan and provide necessary recommendations so that the plan is implemented to the satisfaction of the Monitor. The Monitor's supervision shall include review of the implementation of any components of the Action Plan. This shall include but not be limited to:
 - i. Changes to compliance department staffing;
 - ii. Newly developed processes or written procedures;
 - iii. Training provided to supervisory staff and Approved Persons;
 - iv. Newly developed client account forms or disclosure documents;
 - v. Changes to branch and sub-branch review procedures;
 - vi. Results of any branch or sub-branch reviews;
 - vii. Reports used for branch or head office supervision; and
 - viii. Changes to back-office systems.

F. Testing Procedures

1. The testing procedures determined by the Monitor shall:
 - i. Be sufficient to determine whether the Deficiencies have been resolved or remain unresolved;
 - ii. Specify the objective of the testing procedures, including citing which of the Deficiencies the testing will address; and
 - iii. Specify the sampling methodology, including the size of samples to be tested.

2. The Monitor shall prepare and maintain a file of its working papers regarding the testing, which shall be made available to Staff upon request. The file must contain sufficient information to enable an experienced individual, having no previous connection to the engagement, to re-perform the testing procedures and come to the same conclusions. The file must include appropriate documentation of the procedures performed and the evidence obtained, including copies of documents reviewed or sufficiently detailed information to identify the specific documents reviewed.

G. Completion Report

1. When reporting on the results of testing, the Monitor must:
 - i. Specify the procedures performed and the details of the samples selected;
 - ii. State the factual results of performing the procedures and not express an opinion on the results;
 - iii. Link the factual findings to the Deficiency being tested;
 - iv. List any new deficiencies in compliance with MFDA requirements that are noted during the testing on the original Deficiencies;
 - v. Indicate any restrictions or limitations on the Monitor's ability to perform the procedures; and
 - vi. Provide recommendations to remedy any new deficiencies or any continuing Deficiencies.

H. Compliance Department Assessment

1. When assessing and making its recommendations with regard to the Member's Compliance Department, the Monitor shall:
 - i. Determine whether the Member has adequate resources to satisfy its compliance obligations;
 - ii. Specify the measurements and criteria used in the assessment;
 - iii. Specifically reference staffing and training with relation to the major compliance processes within the member, including Supervision of Trading and Leverage, Complaint Handling, Registration, General Corporate and Branch Supervision, and Branch Reviews.

ACKNOWLEDGEMENT

PricewaterhouseCoopers LLP, the Independent Monitor retained by the Member and approved by Staff to provide services to the Member in accordance with the *Terms of the Independent Monitor*, hereby acknowledges that the terms of its retainer with the member requires it to provide those services in accordance with the *Terms of the Independent Monitor* and these *Duties and Standards of the Independent Monitor*.

Date: July 14, 2010

Name: Dorothy Sanford

Title: Partner