



**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: Paul Michael Halloran**

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**SETTLEMENT AGREEMENT**

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**I. INTRODUCTION**

1. By Notice of Settlement Hearing, the Mutual Fund Dealers Association of Canada (the “MFDA”) will announce that it proposes to hold a hearing to consider whether, pursuant to section 24.4 of By-law No. 1, a hearing panel of the Central Regional Council (the “Hearing Panel”) of the MFDA should accept the settlement agreement (the “Settlement Agreement”) entered into between Staff of the MFDA (“Staff”) and the Respondent, Paul Michael Halloran.

**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. ACKNOWLEDGMENT**

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 Part IX) or any civil or other proceedings which may be brought by any other person or agency, whether or not this Settlement Agreement is accepted by the Hearing Panel.

### **IV. AGREED FACTS**

#### **Registration**

6. Since August 1, 2003, the Respondent has been registered in Ontario as a mutual fund salesperson (now known as a dealing representative<sup>1</sup>) with Quadrus Investments Services Ltd. (“Quadrus” or the “Member”), a Member of the MFDA.

7. At all material times, the Respondent carried on business out of a branch office, operating under the name Bridge to Wealth, located in Belleville, Ontario.

#### **Background**

8. In August 2015, client EY became a client of Quadrus and opened a non-registered account to receive the proceeds from her mother’s life insurance policy. Client EY was a retired high school English teacher.

9. At all material times, the Respondent was the mutual fund salesperson responsible for servicing client EY’s accounts at Quadrus.

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<sup>1</sup> In September 2009, the registration category mutual fund salesperson was changed to “dealing representative” when National Instrument 31-103 came into force.

10. In January 2016, client EY transferred her Registered Retirement Savings Plan (“RRSP”) account and Tax-Free Savings Account (“TFSA”) from another Member to Quadrus.

11. At the time client EY transferred the RRSP account and TFSA to Quadrus, client EY executed a Limited Authorization Form (“LAF”), which permitted the Respondent to execute client EY’s specific trading instructions without obtaining client EY’s signature.

### **The Member’s Policies and Procedures Regarding Client Requests By Email**

12. At all material times, Quadrus’ policies and procedures stated, among other things:

- email hacking is a growing problem and clients can be victimized
- email transaction requests you receive from clients need to be verified with the client
- be suspicious of email requests and follow-up with the client over the telephone

13. In addition, on March 7, 2013, the Member posted a message on its internal website for Approved Persons that stated the following:

Be extra cautious if you receive client requests by email

Email hacking is a growing problem and clients can be victimized. We’re aware of fraudulent emails sent to financial security advisors that appear to be from legitimate clients. Emailed transaction requests you receive from clients need to be verified with them. There are steps you should take to help protect yourself and clients from fraudulent communications.

What you should do

Be suspicious of email requests and follow up with the client over the phone. Be sure to document the call in your files. Things to watch for in emails include:

1. Requests marked urgent or for an emergency
2. Requests for account balances when no account information is given
3. Indications that the client is out of the country and only able to communicate via email

4. Requests to withdraw funds and direct an electronic funds transfer to a third-party described as a business partner or relative

14. On February 22, 2016, the Member circulated an email to all Approved Persons, which advised how fraudulent redemption requests had been made by third parties who had hacked two clients' email accounts. The email stated:

To protect yourselves and your clients ensure that you take steps to verify that transaction requests are legitimate:

- Keep email correspondence with clients to a minimum and never accept transaction instruction via email.
- Remember, once money has been sent the chances of getting it back are slim to none. If you receive a transaction request via email call the client to confirm the instructions. Request an in person meeting if you have concerns that the person you are talking to is not the client.
- Watch for requests that ask for redemption proceeds to be directed to a different address or bank account from prior transactions.
- If not meeting with a client in person, compare the signature on any transaction form you receive to ones on forms that you know are accurate to look for possible forgeries. You should also still verbally confirm the instructions with the client.
- Notify Quadrus of any suspicious requests or activity so that Head Office can investigate further and take additional precautions such as flagging a client's account(s).

### **The Respondent Processed Redemptions Requested by Email Without Verifying the Client's Identity**

15. Unbeknown to the Respondent, a fraudster hacked client EY's email account. Client EY had previously used the email account to communicate with the Respondent.

16. Using the hacked email account, the fraudster contacted the Respondent to obtain client EY's investment portfolio information, discuss a redemption request, and provide information

about a bank account where the redemption monies would need to be transferred. The emails exchanged between the fraudster and the Respondent are described below:

Date	Email from Fraudster <sup>2</sup>	Respondent's Response
Sept. 21, 16 (11:53 am)	<p>Good day Paul, How are you doing,i will like to you to send me summary of accounts with you,I will like to do a quick review. Thank you [EY]</p>	<p>Respondent sent the fraudster EY's investment statement the following day without authenticating EY's identity.</p>
Sept. 22, 16 (10:16 am)	<p>Thanks for the update Paul, I have gone through it, I have short term investment in the United Kingdom,and i have an account set up out there for this investment,right now it needs funding,i will like to make withdrawal from my account to fund,i want the money send [sic] to my account out there in the United Kingdom,and i will have it returned in 21 days back to my portfolio. What are the informations required to execute this transfer ? hope to hear from you soon [EY]</p>	<p>No response.</p>
Sept. 22, 16 (11:21 am)	<p>Hello Paul, I need an update on my request,please let me know the requirements to execute such transfer. Regards [EY]</p>	<p>Respondent advised that a redemption form would need to be completed to access the funds in EY's non-registered account, but that Quadrus could not send the funds to another country.</p>
Sept. 22, 16 (1:14 pm)	<p>Hello Paul, Thanks for the info,can i have the funds transferred to a third party account in Canada? he is my business associate he can then convey the money to the United Kingdom . [EY]</p>	<p>Respondent advised that the funds could not be sent to a third party, but if a void cheque was provided by email, the redemption funds could be deposited directly into a bank account.</p>

<sup>2</sup> All grammatical and typographical errors as per original.

17. On October 4, 2016, the fraudster sent by email a void cheque, on which the fraudster had printed client EY’s name and address, purportedly for client EY’s bank account. The void cheque identified a bank account at a Toronto-Dominion Bank branch in Toronto, Ontario. Client EY’s home address was in Kingston, Ontario.

18. Between October 11 and November 4, 2016, the Respondent processed redemptions totaling \$171,270.80 from client EY’s accounts at Quadrus based upon email requests received from the fraudster. The Respondent used client EY’s LAF to process the redemptions.

19. The Respondent used the void cheque received from the fraudster to arrange for the redemption proceeds to be deposited into the new bank account.

20. The emails exchanged between the fraudster and the Respondent with respect to the redemptions are described below:

Date	Email from Fraudster <sup>3</sup>	Respondent’s Response
Oct. 11, 16 (9:51 am)	Good Morning Paul, How are you and how was Thanksgiving ? I want to request for a withdrawal for the sum of \$43,500 to my TD account# [XXXXXX] on file . Let me know when it has been done and when will it be in my TD account . Thank you [EY]	The Respondent processed the redemption of \$43,500 from EY’s non-registered account, depositing the funds into the fraudster’s bank account.
Oct. 20, 16 (11:40 am)	Good Morning Paul, How are you doing ? I want to make another withdrawal for the sum of \$50,000 to my TD account on file,please process and let me know when it is done.. Thank you [EY]	The Respondent replied he would “make it happen” and asked what the funds were for.
Oct. 20, 16 (12:16 pm)	I told you earlier that i invested in a property and it needs funding,it’s a rental apartment,i will have all the funds returned to my account when they rent them from me.	The Respondent processed the redemption of \$50,000 from EY’s non-registered account,

<sup>3</sup> All grammatical and typographical errors as per original.

Date	Email from Fraudster <sup>3</sup>	Respondent's Response
	<p>Proceed with the transfer and let me know when it is done.</p> <p>Thanks</p> <p>[EY]</p>	<p>depositing the funds into the fraudster's bank account.</p>
<p>Nov. 3, 16 (11:52 am)</p>	<p>Hello Paul,</p> <p>How are you doing,i will like to know the balance on my account,please send me a summary,my building investment is going on fine and it needs the finishing touches so it can be completed.</p> <p>Thank you</p> <p>[EY]</p>	<p>The Respondent replied by sending the fraudster the amount of funds in EY's accounts.</p>
<p>Nov. 4, 16 (10:26 am)</p>	<p>Good Morning Paul,</p> <p>I want to make a withdrawal from my account for the sum of \$60,000 ,please have it transferred to my TD account on file. With this i can complete my project.let me know when you have done it .</p> <p>Thanks</p> <p>[EY]</p>	<p>The Respondent replied, advising the fraudster that redeeming the funds from the RRSP would incur DSC fees.</p>
<p>Nov. 4, 2016 (10:34 am)</p>	<p>Yea i know such withdrawal comes with a fee,before i started making these withdrawal i knew all this. I just know at the end of the day i will be fine and i can re invest my money back when i start having proceeds from this investments.</p> <p>Please go ahead and make the transfer.</p> <p>Thank you</p> <p>[EY]</p>	<p>The Respondent processed the redemption by selling all of the units remaining in the non-registered account (\$13,560.03), all of the units in the TFSA (\$10,986.97), and the balance from the RRSP (\$53,223.80) required to total \$60,000 after DSC fees and taxes.</p>

21. The Respondent failed to verify that client EY had submitted the email requests relating to the bank account or the redemptions in the client's accounts.

22. The Respondent failed to comply with the Member's policies and procedures that required all email instructions received from clients be confirmed by telephone prior to processing any transactions.

### **The Respondent Submitted an Inaccurate Account Form to the Member**

23. As described above, on October 11, 2016, the Respondent processed a redemption in the amount of \$43,500 in client EY's non-registered account. The Respondent relied upon the LAF to submit the redemption request.

24. For all trades to be processed pursuant to the LAF, the Respondent was required to complete a Record of Verbal Transaction Instructions ("RVTI") form.

25. The Respondent executed an RVTI and arranged for the RVTI to be submitted to Quadrus in respect of the redemption.

26. The RVTI, which was prepared by the Respondent's Marketing Assistant for whom he was responsible, and which the Respondent executed, incorrectly stated that the Respondent had obtained redemption instructions from client EY by email *and* telephone. This was inaccurate, as the Respondent had only communicated with the fraudster (posing as client EY) by email.

### **The Respondent Engaged in Discretionary Trading**

27. At all material times, the Member's policies and procedures strictly prohibited its Approved Persons from engaging in discretionary trading.

28. As described above, on November 4, 2016, the Respondent processed redemptions totalling \$60,000 (after deduction of deferred sales charges and taxes) from client EY's accounts at the Member.

29. The Respondent used his discretion to determine: (1) which accounts to redeem monies from; (2) what funds to redeem within each account; and (3) the amounts of the redemptions.

30. In addition, the Respondent chose to redeem funds from the RRSP account without advising the client of the tax implications.

### **The Respondent Discovers the Fraud**

31. On November 21, 2016, the fraudster sent an email to the Respondent requesting a redemption of \$30,000. The Respondent replied to the email advising that the redemption would



result in certain fees and tax withholdings, and requested confirmation that the client nonetheless wished to proceed with the redemption.

32. The fraudster sent a new email to the Respondent directing that he should proceed with the redemption. Because the fraudster's response had not been a direct reply to the email containing the Respondent's warning concerning fees and taxes, the Respondent sent a further follow-up email asking for a direct response to his warning email for his records.

33. The fraudster failed to respond, prompting the Respondent to contact client EY by telephone.

34. When the Respondent contacted client EY by telephone, client EY advised that she had not made any redemption requests.

35. After discovering the fraud, both client EY and the Respondent contacted TD Bank and also made a report to the police. At the time, client EY was unable to recover the redeemed funds from the bank.

36. In March 2017, Quadrus compensated client EY fully for the losses she experienced as a result of the fraudulent redemptions.

### **Additional Factors**

37. In response to the fraud, Quadrus issued a disciplinary letter to the Respondent and placed him under close supervision for a period of at least six months. Quadrus identified no issues with respect to the Respondent's trades while he was under close supervision.

38. The Respondent states that he now regularly reviews the Quadrus Code of Business Conduct and Ethics for Investment Representatives. The Respondent has also enrolled himself and completed the investment/securities continuing educational course titled *The Agent Broker as a Professional*, which is offered by Pro-Seminars. The Respondent has also enrolled himself in the *Mutual Fund Dealer Compliance Course* offered by the IFSE, the educational arm of The Investment Funds Institute of Canada.

39. With respect to the message posted on the Member's internal website, referred to at paragraph 13 above, the Respondent states that while he had access to the internal website he was unaware of the posting and did not review it.

40. With respect to the email circulated by the Member on February 22, 2016, referred to at paragraph 14 above, the Respondent acknowledges that it was sent to him, but states he was unaware of the email and did not review it.

41. The Respondent states that he was confused by the RVTI forms, which contained a checkbox for instructions received by email, but acknowledges that this did not relieve him of his obligation under the policies and procedures manual to verify instructions received by email.

42. With respect to the issue of discretionary trading, the Respondent states that he selected for redemption mutual fund units that would minimize redemption fees incurred by the client.

43. There is no evidence that the Respondent derived any financial benefit from processing the redemptions other than the usual commissions and fees to which we would have been entitled had the requests come from client EY and not the fraudster.

44. The Respondent states that there was no fraudulent or malicious intent on his part, and he was unaware that he was dealing with a fraudster, when performing the trades further to the emails received on October 11, 2016, October 20, 2016, and November 4, 2016.

45. The Respondent has not previously been the subject of a MFDA disciplinary proceeding.

## **V. CONTRAVENTIONS**

46. The Respondent admits that between October 11, 2016 and November 4, 2016, he processed redemptions totalling \$171,270.80 from a client's accounts, based on email instructions from a fraudster who had gained unlawful access to the client's email account, without taking steps to verify he was communicating with the client, contrary to the Member's policies and procedures and MFDA Rules 2.1.1, 1.1.2, and 2.5.1.

47. The Respondent admits that on October 11, 2016, he executed and submitted to the Member in order to process a redemption a “Record of Verbal Instructions” form that contained inaccurate information, contrary to MFDA Rule 2.1.1.

48. The Respondent admits that on November 4, 2016, he engaged in discretionary trading in a client’s accounts, contrary to the Member’s policies and procedures and MFDA Rules 2.3.1(b), 1.1.2, 2.5.1, and 2.1.1.

## **VI. TERMS OF SETTLEMENT**

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

- a) the Respondent shall pay a fine of \$15,000 in certified funds upon acceptance of the Settlement Agreement, pursuant to section 24.1.1(b) of MFDA By-Law No. 1;
- b) the Respondent shall pay costs in the amount of \$5,000 in certified funds upon acceptance of the Settlement Agreement, pursuant to section 24.2 of MFDA By-Law No. 1;
- c) the Respondent shall in the future comply with MFDA Rules 2.1.1, 2.3.1(b), and 2.5.1 and 1.1.2; and
- d) the Respondent will attend in person, on the date set for the Settlement Hearing.

## **VII. STAFF COMMITMENT**

50. 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 contraventions described in Part V of this Settlement Agreement, subject to the provisions of Part IX below. Nothing in this Settlement Agreement precludes Staff from investigating or initiating proceedings in respect of any contraventions that are not set out in Part V of this Settlement Agreement or in respect of conduct that occurred outside the specified date ranges of the contraventions set out in Part 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

51. 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. MFDA Settlement Hearings are typically held in the absence of the public pursuant to section 20.5 of MFDA By-law No. 1 and Rule 15.2(2) of the MFDA Rules of Procedure. If the Hearing Panel accepts the Settlement Agreement, then the proceeding will become open to the public and a copy of the decision of the Hearing Panel and the Settlement Agreement will be made available at [www.mfda.ca](http://www.mfda.ca).

52. 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 his 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.

53. 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. 24.1.1 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.

54. 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 him.

55. If this Settlement Agreement is accepted by the Hearing Panel and, at any subsequent time, the Respondent fails to honour any of the Terms of Settlement set out herein, Staff reserves the right to bring proceedings under section 24.3 of 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. 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.

#### **IX. NON-ACCEPTANCE OF SETTLEMENT AGREEMENT**

56. 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, 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.

57. Whether or not this Settlement Agreement is accepted by the Hearing Panel, the Respondent agrees that he 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.

#### **X. DISCLOSURE OF AGREEMENT**

58. 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.

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

#### **XI. EXECUTION OF SETTLEMENT AGREEMENT**

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

61. An electronic copy of any signature shall be effective as an original signature.

**DATED** this 26<sup>th</sup> day of April, 2019.

“Paul Michael Halloran”

\_\_\_\_\_  
Paul Michael Halloran

“SC”

\_\_\_\_\_  
Witness – Signature

SC

\_\_\_\_\_  
Witness – Print Name

“Shaun Devlin”

\_\_\_\_\_  
Shaun Devlin

Staff of the MFDA

Per: Shaun Devlin

Senior Vice-President,

Member Regulation – Enforcement

**Schedule “A”**

**Order**

**File No. 201905**



**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: Paul Michael Halloran**

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**ORDER**

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**WHEREAS** on [date], the Mutual Fund Dealers Association of Canada (the “MFDA”) issued a News Release announcing that it proposes to hold a hearing to consider whether, pursuant to section 24.4 of By-law No. 1, a hearing panel of the Central Regional Council (the “Hearing Panel”) of the MFDA should accept the settlement agreement entered into between Staff of the MFDA (“Staff”) and the Respondent, Paul Michael Halloran;

**AND WHEREAS** the Respondent entered into a settlement agreement with Staff, 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:

- a) between October 11, 2016 and November 4, 2016, processed redemptions totalling \$171,270.80 from a client’s accounts, based on email instructions from a fraudster who had gained unlawful access to the client’s email account, without taking steps to verify he was communicating with the client, contrary to the Member’s policies and procedures and MFDA Rules 2.1.1, 1.1.2, and 2.5.1;

- b) on October 11, 2016, executed and submitted to the Member in order to process a redemption a “Record of Verbal Instructions” form that contained inaccurate information, contrary to MFDA Rule 2.1.1; and
- c) on November 4, 2016, engaged in discretionary trading in a client’s accounts, contrary to the Member’s policies and procedures and MFDA Rules 2.3.1(b), 1.1.2, 2.5.1, and 2.1.1.

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

1. The Respondent shall pay a fine of \$15,000, in certified funds, pursuant to section 24.1.1(b) of MFDA By-Law No. 1.
2. The Respondent shall pay costs in the amount of \$5,000, in certified funds, pursuant to section 24.2 of MFDA By-Law No. 1.
3. The Respondent shall in the future comply with MFDA Rules 2.1.1, 2.3.1(b), and 2.5.1 and 1.1.2.
4. If at any time a non-party to this proceeding, with the exception of the bodies set out in section 23 of MFDA By-law No. 1, requests production of or access to exhibits in this proceeding that contain personal information as defined by the MFDA Privacy Policy, then the MFDA Corporate Secretary shall not provide copies of or access to the requested exhibits to the non-party without first redacting from them any and all personal information, pursuant to Rules 1.8(2) and (5) of the MFDA *Rules of Procedure*.

**DATED** this [day] day of [month], 20[ ].

Per: \_\_\_\_\_  
[Name of Public Representative], Chair

Per: \_\_\_\_\_  
[Name of Industry Representative]



DM 675538

Per: \_\_\_\_\_  
[Name of Industry Representative]