

2019

ANNUAL ENFORCEMENT REPORT



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

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MESSAGE FROM THE PRESIDENT & CEO

We will continue to deliver responsible and effective regulation and are prepared to respond to any new challenges that the current situation may pose by working collaboratively and responsively with all of our stakeholders in the interest of all Canadians.

I am pleased to present the 2019 Annual Enforcement Report which highlights key enforcement activity over the course of 2019.

As I write this message, Canada and the whole world is in the midst of the global coronavirus pandemic. Canadians across the country are experiencing significant challenges in their daily lives and changes to their financial situations. During these difficult times I want Canadians to know that the MFDA is continuing to do what we have always done: **protect Canadian investors**. Indeed, the commitment to our public interest mandate has always been at the core of the MFDA's values, and I believe that the activities and accomplishments set out in this Report highlight this fact.

Investor protection initiatives from this past year include a continued focus on complaint handling by Members and the MFDA's publication of guidance regarding practices to protect seniors and vulnerable clients – namely by requesting clients to name a trusted contact person and by placing temporary holds on transactions where there are concerns regarding client harm. In addition, key initiatives involving collaboration with law enforcement partners resulted in successful criminal prosecutions.

Unfortunately, with all the confusion brought about by the emergence of COVID-19 the incidence of cybercrime aimed at exploiting peoples' need for information and reassurance has increased. As set out in this Report, the MFDA is taking measures to protect investors against cybercrime and has focused efforts on combatting unauthorized transactions perpetuated through hacking investors' email accounts.

We are also taking proactive measures to help inform Canadians of these cybercrime risks through our Investor Bulletins which provide information on actionable measures Canadians can take to protect themselves from cybercriminals, and we continue to provide guidance to Members on this topic. This information, along with other resources to help Canadians during these uncertain times can be found on the dedicated COVID-19 resource section on the MFDA's website.

Going forward, we will continue to deliver responsible and effective regulation, and are prepared to respond to any new challenges that the current situation may pose by working collaboratively and responsively with all of our stakeholders in the interest of all Canadians.

I would like to thank all MFDA management and staff for their hard work and dedication. As an SRO responsible for regulating the distribution of mutual funds, which are the most widely held investment product by retail investors, there is no doubt that our collective efforts have had a large impact on enhancing investor protection across Canada.

Finally, I would like to acknowledge Shaun Devlin who is retiring this year. Shaun has been the head of the enforcement department since 2003 and an invaluable member of the MFDA senior management team. Shaun's leadership was instrumental in shaping the MFDA into being the responsible and effective public interest regulator that it is today. I would like to thank Shaun for his hard work, dedication to investor protection and wise counsel. On behalf of everyone at the MFDA we wish Shaun a happy and healthy retirement.

Mark T. Gordon, LL.B.
President and CEO

ABOUT US

MUTUAL FUND DEALERS ASSOCIATION OF CANADA

The Mutual Fund Dealers Association of Canada ("MFDA") is the national SRO for the distribution side of the Canadian mutual fund industry. The MFDA is structured as a not-for-profit corporation and its Members are mutual fund dealers that are licensed with provincial securities commissions.

The MFDA is formally recognized as a SRO by the provincial securities commissions in Alberta, British Columbia, Manitoba, New Brunswick, Nova Scotia, Ontario, Prince Edward Island and Saskatchewan. An application for recognition is pending before the Superintendent of Securities of Newfoundland and Labrador. The MFDA has also entered into a

Co-operative Agreement with the Autorité des marchés financiers and actively participates in the regulation of mutual fund dealers in Quebec.

As an SRO, the MFDA is responsible for regulating the operations, standards of practice and business conduct of its Members and their representatives with a view to enhancing investor protection and strengthening public confidence in the Canadian mutual fund industry. As of December 31, 2019, the MFDA has 91 Members. These Members represent approximately \$750 billion of assets under administration. MFDA Members are registered in every province and territory of Canada and service approximately 9 million households.

ENFORCEMENT DEPARTMENT

The Enforcement Department investigates situations where MFDA Members and their Approved Persons may have breached MFDA requirements. The Enforcement Department operates on several general principles:

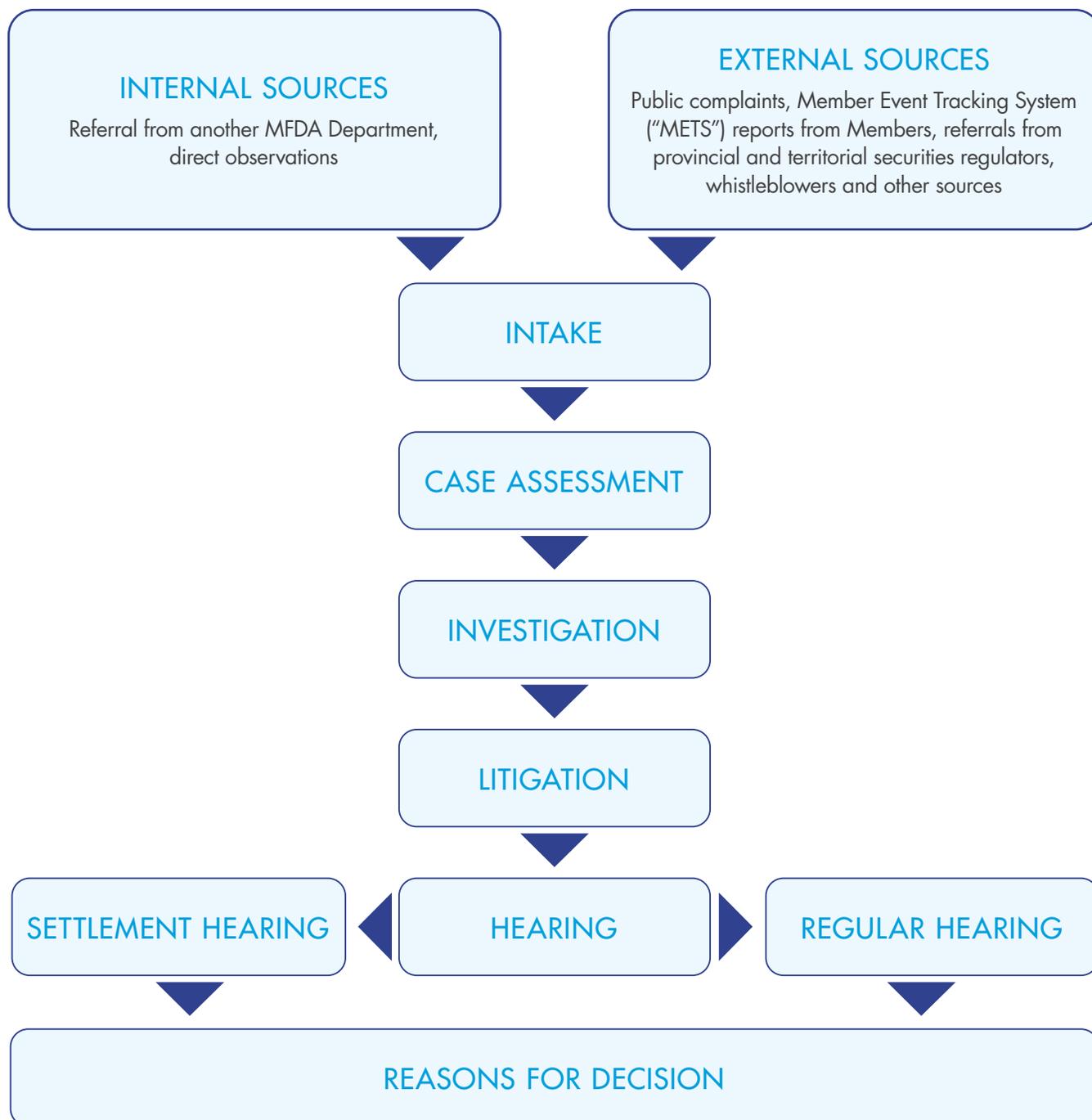
- The Enforcement Department considers general and specific deterrence in its decision making.
- Members and Approved Persons are provided opportunity for input before a decision is made on disciplinary action, except in urgent cases involving potential public harm.
- Member supervision of Approved Persons is reviewed in all cases.
- The fairness and promptness of a Member's complaint handling is reviewed in all cases involving an investor complaint.
- Cases are reviewed proactively, with a view to identifying possible associated misconduct and assessing root causes.
- The Enforcement Department works on a cooperative basis with:
 - Other regulatory agencies and law enforcement organizations.
 - MFDA Compliance and Policy Departments and refers cases and issues to these Departments where appropriate.

The Enforcement Department has four main functions:

- 1 Intake
- 2 Case Assessment
- 3 Investigations
- 4 Litigation

Case screening occurs throughout the enforcement process and cases may be closed at any stage of the enforcement process. Screening factors include the seriousness of the alleged misconduct, whether the alleged misconduct resulted in significant losses or harm to investors, and whether the victim is part of a vulnerable or priority group. The screening factors include many of the same considerations in the MFDA's Sanction Guidelines.

ENFORCEMENT PROCESS



Note: Provincial securities legislation allow Respondents and in many cases MFDA Staff to appeal a decision of an MFDA Hearing Panel to the applicable securities regulator.

STATISTICS

TABLE 1: OVERVIEW OF ENFORCEMENT DEPARTMENT ACTIVITY (2015-2019)

The table below summarizes overall activity for the Enforcement Department.

	2015	2016	2017	2018	2019
Cases Opened	444	446	469	458	453
Cases Closed	361	450	438	535	503
Warning Letters	85	120	111	127	92
Cautionary Letters	86	86	73	114	113
Proceedings Commence	69	111	121	136	78

Warning letters are issued in circumstances where the violation is one that the MFDA could have escalated to a formal disciplinary hearing, but has chosen not to due to screening factors. Cautionary letters are issued when the violation is minor or less serious in nature and one that the MFDA would not generally escalate to a formal disciplinary hearing. While Cautionary Letters are disciplinary in nature, they are often issued for educational purposes.

TABLE 2: CASES OPENED AT CASE ASSESSMENT BY SOURCE (2015-2019)

SOURCE	NUMBER				
	2015	2016	2017	2018	2019
METS	281	246	310	297	272
Public	123	145	119	126	137
MFDA Compliance	9	26	16	8	18
Whistleblower	6	4	5	4	9
CSA and Other Regulators	18	15	11	11	5
Financial Industry Participant	N/A	N/A	4	6	4
Member	4	9	2	3	3
Media	2	1	N/A	N/A	3
Referral from Membership Services	N/A	N/A	N/A	N/A	2
Law Enforcement	1	N/A	N/A	N/A	N/A
Other	N/A	N/A	2	3	N/A
TOTAL	444	446	469	458	453

TABLE 3: PRIMARY ALLEGATIONS MADE IN CASES OPENED AT CASE ASSESSMENT (2015-2019)

The table below lists the primary allegation made in cases opened at the Case Assessment stage.

NATURE OF PRIMARY ALLEGATION	NUMBER OF CASES				
	2015	2016	2017	2018	2019
Pre-Signed Forms	75	103	93	70	94
Suitability – Investments	41	43	48	40	38
Business Standards	30	26	32	41	38
Commissions and Fees	14	17	23	40	29
Unauthorized / Discretionary Trading	35	20	22	25	26
Complaint Procedure	34	19	19	24	22
Personal Financial Dealings	11	18	18	17	19
Active Signature Falsification	7	27	27	15	18
Transfer of Accounts	7	21	10	6	17
Policy & Procedures	16	14	20	29	17
Conflict of Interest	6	7	17	19	15
Forgery / Fraud / Theft / Misappropriation / Misapplication	11	7	8	13	13
Supervision	14	19	12	21	13
KYC Documentation Deficiency	2	3	2	6	12
Falsification / Misrepresentation	46	10	21	11	12
Suitability - Leveraging	29	26	18	9	11
Outside Activity	8	8	25	10	11
Confidentiality / Privacy	7	4	1	11	10
Know Your Product	5	1	3	8	4
Reporting Violations	7	3	5	6	4
Acting Outside Registration Status	7	7	13	9	3
Stealth Advising	3	2	2	5	2
Other	29	41	30	23	25
TOTAL	444	446	469	458	453

TABLE 4: ENFORCEMENT PROCEEDINGS (2015-2019)

The table below shows the total number of formal enforcement proceedings commenced in the last five years. It also shows for each year how many of those proceedings were commenced utilizing the Bulk Track Process that provides for a more efficient process in cases where a violation of MFDA requirements is not disputed by the Respondent. The decrease in hearings in 2019 is due primarily to a decrease in signature cases.

YEAR	PROCEEDINGS COMMENCED	BULK TRACK CASES
2019	78	36
2018	136	70
2017	121	75
2016	111	52
2015	69	36

MEMBER CASES

YEAR	PROCEEDINGS COMMENCED
2019	2
2018	9
2017	5
2016	11
2015	4

TABLE 5: PROCEEDINGS COMMENCED (2019) – ALL ALLEGATIONS

The MFDA commenced 78 proceedings in 2019 by Notice of Hearing or Notice of Settlement Hearing. Many of the proceedings involved more than one alleged violation of MFDA Rules, By-Laws or Policies.

NATURE OF ALLEGATION	NUMBER OF ALLEGATIONS AGAINST APPROVED PERSONS	NUMBER OF ALLEGATIONS AGAINST MEMBERS
Policy & Procedures	42	-
Pre-Signed Forms	36	-
Falsification / Misrepresentation	17	-
Active Signature Falsification	15	-
Personal Financial Dealings	12	-
Business Standards	11	-
Failure to Cooperate	10	-
Unauthorized / Discretionary Trading	9	-
Outside Activity	10	-
Forgery / Fraud / Theft/ Misappropriation / Misapplication	7	-
Conflict of Interest	6	-
Conduct Unbecoming	5	-
KYC Documentation Deficiency	4	-
Suitability - Investments	4	-
Acting Outside Registration Status	4	-
Referral Arrangements	3	-
Reporting Violations	2	-
Suitability - Leveraging	1	-
Disclosure	1	-
Sales Communication	1	-
Complaint Procedures	1	-
Supervision	0	2
SUB-TOTAL	201	2
TOTAL	203	

TABLE 6: PROCEEDINGS CONCLUDED (2015-2019) – TYPE OF PENALTY

In 2019, the Enforcement Department concluded 120 hearings. In those 120 hearings, MFDA Hearing Panels imposed fines of \$9,298,603 of which \$1,647,989 has been collected. Since the commencement of MFDA disciplinary activity in 2004, MFDA Hearing Panels have imposed total fines of \$96,996,845 of which \$13,734,026 (approximately 14%) has been collected.

The MFDA has fine collection powers in all the provinces that the MFDA is recognized in. MFDA Staff makes all reasonable efforts to collect any outstanding fines from former Respondents in provinces where the MFDA is recognized. However, successful collection of outstanding fines using these powers depends on several factors including but not limited to the availability of assets to collect against and the Respondent's status with respect to any bankruptcy or similar proceedings.

The table below shows the penalties imposed against Members and Approved Persons by MFDA Hearing Panels in hearings concluded between 2015-2019.

TYPE OF PENALTY	2015	2016	2017	2018	2019
Permanent Prohibition	19	22	22	19	22
Suspension	6	26	48	41	56
Educational Course Requirement	2	5	13	5	7
TOTAL FINES	\$5,389,650	\$21,104,750	\$8,498,250	\$6,080,031	\$9,298,603
TOTAL COSTS	\$479,500	\$496,000	\$536,500	\$592,000	\$558,425

TABLE 7: HEARINGS CONCLUDED (2015-2019) – TYPE OF HEARING

TYPE OF HEARING	2015	2016	2017	2018	2019
Contested/Uncontested Hearing	29	34	22	34	22
Settlement Hearing	36	51	111	98	98
TOTAL NUMBER OF HEARINGS	65	85	133	132	120

NEW DEVELOPMENTS



AMENDMENT TO MFDA BY-LAW NO. 1, SUBSECTION 24.A

In 2019, the MFDA amended subsection 24.A of MFDA By-Law No. 1 by deleting subsection 24.A.4 (“the amendment”). Subsection 24.A.1 of MFDA By-Law No. 1 requires each MFDA Member to participate in an ombudservice approved by the Board of Directors. The approved ombudservice is the Ombudsman for Banking Services and Investments (“OBSI”). The disclosure of information by OBSI to regulators, including the MFDA, is addressed under section 16.5 of the OBSI Terms of Reference and was addressed by the former subsection 24.A.4 of MFDA By-Law No. 1.

Subsection 24.A.4 limited the information that OBSI could disclose to the MFDA in connection with OBSI’s investigation or review of a complaint. The amendment broadens the scope of information that may be provided by OBSI to the MFDA, and, now allows the MFDA to receive information about anticipated refusals of OBSI recommendations from OBSI. The amendment is intended to ensure that MFDA By-Law provisions do not unnecessarily limit, conflict, or give rise to potential inconsistencies with the provisions of section 16.5 of the OBSI Terms of Reference.

The amendment also promotes regulatory consistency by harmonizing the disclosure of information by OBSI to the MFDA with the practices of other SROs and provincial regulatory authorities.

The amendment to subsection 24.A received all required approvals and is now in effect.



FINE COLLECTION

The MFDA now has fine collection powers in all provinces that the MFDA is recognized in including, Alberta, British Columbia, Manitoba, New Brunswick, Nova Scotia, Ontario, Prince Edward Island and Saskatchewan.



EVIDENCE GATHERING POWERS

In 2019, the MFDA was granted expanded legislative powers in New Brunswick to compel evidence and cooperation from non-registrants. The MFDA has been granted similar powers in Alberta, Nova Scotia and Prince Edward Island. While the MFDA has always worked collaboratively with provincial securities authorities to gather evidence from non-registrants, provincial legislative provisions enhance the MFDA’s evidence gathering abilities from non-registrants and should provide for a further streamlined process for MFDA Enforcement in such circumstances.



STATUTORY IMMUNITY

In 2019, the government of New Brunswick passed legislation to protect the MFDA from civil law suits relating to the exercise in good faith of its duties and powers. These protections assist the MFDA to effectively continue to carry out its investor protection mandate. The MFDA has been granted similar protection in Alberta, Manitoba, Nova Scotia and Prince Edward Island.

KEY ENFORCEMENT ACTIVITY



APPROVED PERSON TARGETED REVIEW

The Client Research Report issued on May 23, 2017, provided the MFDA with valuable information and insight into Members' business, their Approved Persons and their clients. In 2018, the MFDA commenced a targeted review of Approved Persons' books of business utilizing information obtained from the Client Research Project. This initiative was part of continued efforts to enhance suitability testing in examinations by further utilizing technology and data to help identify patterns or trends and target issues. The findings identified in the targeted review of Approved Persons included: (1) concentration in high risk sector funds; (2) uniformity of Know-Your-Client information; and (3) investment patterns where all clients were 100% invested in equity funds. Approved Persons who potentially had the highest risk in their books of business were reviewed further by compliance. Several of those Approved Persons have been referred to the Enforcement Department for investigation and those investigations are ongoing.



SIGNATURE CASES

The MFDA continued its efforts to address cases involving the use of pre-signed forms and situations where client signatures are falsified by Approved Persons. Most of the cases investigated by the MFDA do not involve client complaints, an intent on the part of the Approved Person to harm the client or resulting financial harm to the client. In those cases, the activity is done for the purposes of client or advisor convenience. Activity of this type was an allegation in 37 of the 78 formal proceedings commenced by the MFDA in 2019. This was a significant decrease from 2018. In a small number of cases, signature falsification is used to conduct a further violation of MFDA Rules such as discretionary trading, unauthorized trading or misappropriation. Nine of the 78 formal proceedings that the MFDA commenced in 2019 fell into this latter category.

Regardless of whether the conduct is for the purposes of convenience or to commit a further regulatory violation, Hearing Panels of MFDA Regional Councils have consistently ruled that signature falsification is not permissible under MFDA Rule 2.1.1, which requires Members and Approved Persons to deal fairly, honestly and in good faith with clients and observe high standards of ethics and conduct in the transaction of business. The MFDA will continue to address these cases as a priority.



REFERRALS TO LAW ENFORCEMENT

Section 23.3 of MFDA By-Law No. 1 allows the MFDA to provide assistance to law enforcement, including providing information to law enforcement in the MFDA's possession. The Enforcement Department continues to ensure that cases involving criminal misconduct, such as theft and fraud, are referred to law enforcement. This is done either through a direct referral to law enforcement or through coordination with provincial securities regulators. The MFDA also encourages Members and complainants to directly contact law enforcement to report criminal activity.

When the MFDA becomes aware that a law enforcement agency is investigating the conduct of an Approved Person or a Member, the Enforcement Department will initiate contact with that law enforcement agency and offer assistance. Since January 1, 2013, the MFDA has worked with law enforcement on 40 matters involving theft or fraud by either referring the matter to their attention or by providing assistance with an ongoing investigation.

In cases where a referral is made to law enforcement, the Enforcement Department will continue to investigate and, where appropriate, take disciplinary action against the subject(s).

On April 12, 2019, members of the Toronto Integrated Market Enforcement Team ("IMET") of the Royal Canadian Mounted Police ("RCMP") charged Marilyn Dianne Stuart ("Dianne Stuart"), a principal of MFDA former Member W.H. Stuart Mutuals Ltd. ("Stuart Mutuals"), with fraud over \$5,000 contrary to the Criminal Code. The MFDA referred this matter to the RCMP and assisted the RCMP in the investigation of this matter.

The events in question were also the subject of an MFDA disciplinary hearing, at which in 2016 the MFDA Hearing Panel found that Dianne Stuart and Stuart Mutuals had:

- solicited and accepted approximately \$6 million for investment from more than 180 clients and used the money to their own benefit;
- actively concealed the above conduct from external auditors, the MFDA and other regulators; and
- misappropriated or failed to account for over \$800,000 of client investment monies obtained from more than 30 additional clients.

The MFDA Hearing Panel ordered that Dianne Stuart pay a fine of \$7,000,000 and be permanently prohibited from acting as an Approved Person of any MFDA Member.

On December 2, 2019, Dianne Stuart plead guilty to a charge of fraud over \$5,000 contrary to the Criminal Code in relation to matters that occurred while she was a principal of Stuart Mutuals.

On December 19, 2019, Justice D.S. Rose of the Ontario Court of Justice ordered that Dianne Stuart:

- serve a term of imprisonment of two years less a day, to be served conditionally;
- is subject to a subsequent period of probation of two years;
- make restitution in the amount of \$1.1 million to the MFDA Investor Protection Corporation; and
- is prohibited from seeking, obtaining or continuing any employment, or becoming or being a volunteer in any capacity, that involves having authority over the real property, money or valuable security of another person for 20 years.



HACKED EMAIL CASES

The MFDA is continuing its efforts to address hacking of client e-mail accounts. To date, the MFDA has completed 7 Approved Person cases, including two in 2019, concerning redemptions and transfers processed in client accounts by Approved Persons based on instructions received from a client's hacked e-mail account.

Acting on instructions without verifying that the client has provided the instructions can have serious consequences. The 7 cases completed by the MFDA have resulted in client reimbursements by Members of over \$850,000. The Enforcement Department will continue to review and, where appropriate, take disciplinary action against Approved Persons to address cases where a client's e-mail account has been hacked and where an Approved Person acted without verifying that the client provided the instructions.

ENFORCEMENT PRIORITIES



SUPERVISION

MFDA Rule 2.5.1 states that each Member is responsible for establishing, implementing and maintaining policies and procedures to ensure the handling of its business is in accordance with the By-Laws, Rules and Policies of the MFDA and with applicable securities legislation. The MFDA reviews Member supervision in every enforcement case. This assessment includes the review of the Member's execution of its supervision of its regular daily business activities prior to being alerted to potential misconduct by an Approved Person, as well as the completeness and reasonableness of its supervisory investigation after being alerted to potential misconduct.

Where the MFDA identifies material failures by a Member, the MFDA may undertake a proceeding against the Member. In 2019, the MFDA completed several Member cases, including cases concerning deficiencies in Member supervision. Please refer to the section Case Highlights, Member Cases on page 16 for a summary of Member cases completed by the MFDA in 2019.



COMPLAINT HANDLING

The MFDA continues to focus on Member complaint handling involving client complaints in order to foster continued investor confidence in the mutual fund industry. The MFDA reviews and assesses Member complaint handling in every enforcement case that involves a client complaint against the principles set out in MFDA Policy No. 3.

MFDA Rule 2.11 requires that Member firms implement policies and procedures for handling client complaints that address the minimum complaint handling requirements set out in MFDA Policy No. 3, including responding to client complaints in a fair and prompt manner. Fair and prompt complaint handling demonstrates to clients that complaints are taken seriously and that Members are responsive to their clients.

Where the MFDA believes that a Member may have failed to respond to a client complaint in a fair and prompt manner, Enforcement Department Staff often engage in dialogue with Member Compliance Staff regarding the issues, and the Member's approach to assessing them. In this way, the MFDA seeks to educate Members about fair complaint handling principles, and in doing so, to facilitate consistency in approach to the handling of client complaints by all MFDA Members. In 2019, the MFDA completed several Member cases, including a case concerning deficiencies in Member complaint handling. Please refer to the section Case Highlights, Member Cases on page 16 for a summary of Member cases completed by the MFDA in 2019.



SENIORS AND VULNERABLE PERSONS

The protection of seniors and vulnerable persons continues to be an area of focus for the MFDA. The MFDA continues to encounter the following situations involving seniors and vulnerable persons: receiving unsuitable investment advice from Approved Persons, loaning money to Approved Persons (often where the money was never repaid), and providing Executor Powers to Approved Persons.

The MFDA places a priority on cases involving seniors and vulnerable persons. In 2019, 32% of commenced proceedings involved seniors or vulnerable persons (other than signature falsification cases that do not involve a client complaint or harm to a client).

In 2019, the MFDA undertook and continued to perform a number of activities to improve the protection of seniors and vulnerable persons. These activities included the publication of an Investor Bulletin in June 2019 that focused on protecting seniors and senior issues. In the fall of 2019, the MFDA held its third Seniors Summit for Members. The Seniors Summit built upon the foundation set by the previous two Seniors Summits and provided Members with guidance and updates on topics related to best serving and protecting seniors and updates on regulatory initiatives intended to protect senior clients. In October 2019, the MFDA issued Bulletin #0797-P relating to the practice of (1) requesting clients to name a trusted contact person and (2) placing a temporary hold on transactions where there are reasonable concerns regarding financial exploitation of a client or a client's mental capacity.

The MFDA is actively engaged with the Canadian Securities Administrators in developing a flexible and responsive regulatory approach to address issues of financial exploitation and diminished mental capacity among seniors and vulnerable clients.

CASE HIGHLIGHTS

MEMBER CASES

FUNDEX INVESTMENTS INC.

Reasons for Decision: November 6, 2019

In a Settlement Agreement, FundEX Investments Inc. ("FundEX") admitted to several supervisory failures, including:

- failing to conduct adequate trade supervision to ensure the recommendation of an exempt market product to a client was suitable;
- failing to have procedures to monitor non-mutual fund holdings in client accounts held at a third-party trust company, resulting in a failure to identify the sale of unapproved products to two clients by two Approved Persons;
- failing to fairly handle complaints from two clients concerning unapproved products;
- failing to adequately conduct supervisory investigations to review and resolve suitability and concentration of precious metals sector funds in client accounts serviced by four Approved Persons;

- failing to fairly handle complaints by refusing to offer compensation to three clients for losses caused by unauthorized redemptions and misappropriation by an Approved Person; and
- failing to maintain a branch review program to ensure that in all instances an on-site compliance review of all of its branches was conducted at least once every three years.

Subsequent to the events described above, FundEX took numerous remedial steps to address the underlying issues. FundEX revised its compliance policies and procedures, hired additional supervisory and compliance staff, established concentration policies for both exempt market products and precious metal sector funds, implemented a review of non-mutual fund assets held by clients with accounts at the third-party trust company, and established a Compliance Steering Committee.

The Hearing Panel accepted the Settlement Agreement and imposed a fine of \$250,000 and costs of \$50,000.

INVESTORS GROUP FINANCIAL SERVICES INC.

Reasons for Decision: June 17, 2019

In a Settlement Agreement, Investors Group Financial Services Inc. ("IGFS") admitted that it failed to adequately supervise the recommendation and sale of mutual funds subject to deferred sales charges ("DSC") to two elderly clients. Between 2013 and 2014, IGFS approved the recommendation and sale of \$340,000 and \$498,511 in DSC mutual funds to two elderly clients, who were 92 years old and 95 years old, respectively. In each case, IGFS reviewed the trades but failed to obtain adequate explanations for the suitability of the DSC mutual funds for elderly clients. Both clients passed away less than 2 years into the 7 year DSC schedule. The clients' estates redeemed the DSC mutual funds and incurred DSCs of \$14,493.72 and \$24,380.39, respectively. IGFS reimbursed the estates for the DSCs incurred.

Subsequent to these events, IGFS made significant changes to its policies concerning the sale of DSC mutual funds. Effective October 1, 2016, IGFS stopped accepting DSC purchases for clients age 65 and older. Effective January 1, 2017, IGFS discontinued purchases of its proprietary mutual funds that would result in DSCs on redemption for all clients. Following the involvement of the MFDA, IGFS voluntarily implemented a procedure to supervise and address material DSC redemptions by senior clients.

The Hearing Panel accepted the Settlement Agreement and imposed a fine of \$150,000 and costs of \$15,000.

SHAH FINANCIAL PLANNING INC.

Reasons for Decision: May 7, 2019

In a Settlement Agreement, Shah Financial Planning Inc. (“Shah”) admitted that it failed to establish, implement, and maintain adequate procedures to supervise and ensure the suitability of leveraged investment recommendations made by its Approved Persons to clients. Between January 2013 to May 2016, Shah tripled its leveraged assets under administration, which was predominantly driven by its Approved Persons recommending clients obtain investment loans to purchase return of capital mutual (“ROC”) funds. Shah failed to maintain evidence that it had done a Tier 2 supervisory review to ensure that these leveraging recommendations by its Approved Persons were suitable.

Following the involvement of the MFDA, Shah revised its policies and procedures to no longer permit the recommendation and implementation of a leveraged investment strategy whereby clients invested in ROC mutual funds. Shah further required that its Approved Persons explain the risks and material features of leveraged investing when recommending it to clients.

The Hearing Panel accepted the Settlement Agreement and imposed a fine of \$20,000 and costs of \$5,000.

DE THOMAS WEALTH MANAGEMENT CORP.

Reasons for Decision: April 25, 2019

In a Settlement Agreement, De Thomas Wealth Management Corp. (“De Thomas”) admitted that it failed to conduct an on-site compliance review of every sub-branch location at least once every three years. In particular, from June 2011, De Thomas failed to conduct such reviews in respect of 6 sub-branch locations, and further could not demonstrate that the sub-branches were low risk and had been subject to alternative compliance review procedures performed by head office. Subsequently, De Thomas hired an additional full-time compliance officer to ensure adherence to the branch review schedule.

In addition, De Thomas admitted to failing to adequately supervise an Approved Person by permitting him to sell securities (syndicated mortgages) outside the Member. Pursuant to MFDA Rule 1.1.1, all securities related business must be carried on for the account of the Member and through the facilities of the Member. The Approved Person subsequently sold two \$100,000 investments in syndicated mortgages to a Member client.

The Hearing Panel accepted the Settlement Agreement and imposed a fine of \$40,000 and costs of \$10,000.

CASE HIGHLIGHTS

APPROVED PERSON CASES

DAVID MICHAEL GORDON

Reasons for Decision: December 5, 2019

In a Settlement Agreement, Gordon admitted to making unsuitable recommendations to 6 clients to invest in precious metals sector funds, and further failing to adequately explain the risks and benefits of investing in precious metals sector funds to those 6 clients. In particular, Gordon recommended investment in precious metals sector funds based on his view of how these fund would perform, and not with regard to the 6 clients' Know-Your-Client information or the risks associated with concentrating their investment portfolio in precious metals sector funds. Gordon further failed to

consider whether it was suitable for the 6 clients to hold non-diversified investments in their accounts with the Member.

Gordon's conduct resulted in the clients having portfolios that were overly concentrated in precious metals sector funds that were high risk, resulting in total losses of \$73,585 as a result of their concentrated position.

The Hearing Panel accepted the Settlement Agreement and imposed a fine of \$20,000 and costs of \$2,500.

PATRICK HUGH LUMBERS

Reasons for Decision: May 6, 2019

In a Settlement Agreement, Lumbers admitted to making an unsuitable recommendation to a 92 year old client to purchase approximately \$340,000 of mutual funds that were subject to a 7 year deferred sales charge ("DSC") schedule. Lumbers also admitted to failing to learn, or update material changes to, the essential Know-Your-Client ("KYC") information for the 92 year old

client's account. The client passed away approximately 20 months after purchasing the DSC mutual funds. The client's estate complained to the Member, which reimbursed the estate for the DSCs incurred.

The Hearing Panel accepted the Settlement Agreement and imposed a fine of \$20,000 and costs of \$2,500.

JEFFREY MICHAEL BECK

Reasons for Decision: April 10, 2019

In a Settlement Agreement, Beck admitted to selling \$2.2 million in promissory notes (Notes) to approximately 28 investors without exercising adequate due diligence to "know the product". As a consequence, Beck failed to recognize that the Notes were securities, was unable to evaluate whether investment in the Notes was suitable for his clients, could not identify and explain the risks of the investment to his clients, and finally could not ensure that the process of soliciting investments was compliant with regulatory requirements.

issued by a factoring company, which was owned and controlled by the same individuals who owned and operated the Respondent's Member, International Capital Management Inc. The issuer of the Notes also paid compensation of 2% per year of all amounts invested in the Notes to those who solicited investments in the Notes. Neither issue was disclosed to clients.

In addition, Beck failed to disclose to clients the conflict of interest inherent in the solicitation of investments by clients of the Member in the Notes. The Notes were

The Hearing Panel accepted the Settlement Agreement and imposed a prohibition from conducting securities related business with an MFDA Member for a period of approximately 32 weeks, a fine of \$30,000, and costs of \$5,000.

NATASCHA NADINE STUTZ

In a Settlement Agreement, Stutz admitted to processing 11 redemptions from the accounts of two clients based on instructions from third parties who did not have trading authorization on the accounts. In each case, the client account holders had no knowledge of and had not given authorization for the redemptions. Unbeknownst to Stutz, the third parties used the proceeds of redemption for their own benefit without the knowledge or approval of the account holders.

The Hearing Panel accepted the Settlement Agreement and imposed a prohibition of 6 months from conducting securities related business with an MFDA Member, a fine of \$15,000, and costs of \$5,000.

JEFFREY DUNLOP

In a Settlement Agreement, Dunlop admitted to engaging in unauthorized discretionary trading totaling \$468,423 in the accounts of a client. While Dunlop had discussed investment options with the client, he failed to obtain final instructions because the client was away. Dunlop's e-mail to the client advising that he was going to execute the trades was not read and did not constitute authorization for the trades. Dunlop further failed to

report the client's complaint about the unauthorized trades to the Member, and misled the client by advising the client that the Member was taking steps to reverse the trades when no such steps were underway.

The Hearing Panel accepted the Settlement Agreement and imposed a suspension of three months from conducting securities related business with an MFDA Member, a fine of \$20,000, and costs of \$5,000.



HEARINGS CONCLUDED BY TYPE OF PRIMARY ALLEGATION*

ACTING OUTSIDE REGISTRATION STATUS

Clairmont, Edward
Simmons, Adrienne

ACTIVE SIGNATURE FALSIFICATION

Alathamna, Ghassan
Archer, Bradley
Collier, Shaun
Congi, Luigi
Del Plavignano, Nicholas
Desjardins, Bertin
Dhaliwal, Ranjit
Kidnie, Kyle
Kolendreski, Sandra
Muhima, Isaac
Patel, Rakeshkumar
Sawwaf, Mohamad
Scholes, James
Suleman, Azmina
Tacurda, Leah
Terrill, Tobias
Truong, Alan
White, Christopher
Wilcott, Edgar
Wu, Zichao

BUSINESS STANDARDS

Li, Samuel
Mahendran, Laurina

CONDUCT UNBECOMING

Vendrov, Roman

CONFLICT OF INTEREST

Rana, Danny
Singh, Rajbir

FAILURE TO COOPERATE

Kumar, Neil
Law, Saveth
Nguyen, Quan
Taylor, James

FALSIFICATION/ MISREPRESENTATION

Cadigal, Jake
Harrigan, Michael
Rai, Prabhdyal Singh

FORGERY / FRAUD / THEFT/ MISAPPROPRIATION / MISAPPLICATION

Addison, Blair
Backer, Harold
Lam, Leo
Lee, Christopher
Morante, Carlos
Pino, Alfredo

KYC DOCUMENTATION DEFICIENCY

Mah, Roland

OUTSIDE ACTIVITY

Andersen, Risa
Beck, Jeffrey
Chan, William
Greigson, Brian
Vu, Jesse
Wayne, Clinton

PERSONAL FINANCIAL DEALINGS

Copland, Robert
Gibson, Stuart
Notis, Israel
Rosicki, Rafal
Szekely, Blaise

POLICY & PROCEDURES

Halloran, Paul
Hucul, David

PRE-SIGNED FORMS

Arcand, Howard
Baksh, Mubarak
Bast, Michael
Beausoleil, Michael
Bell, Leslie
Boassaly, Scott
Borrero, Diego
Botha, Daniel
Bott, Thomas
Brenchley, Alan
Cassim, Ismail
Chen, Pamela
Chovancak, Lubomir
Coltart, Graham
Cruz, Cristina
Dekker, David
Fredrickson, David
Fu, Johnson
Gonzalez, Juliana
Gusain, Nand
Heide, Christopher Paul
Hirani, Shafique
Knezevic, Jovan
Lucescu, John
Mailloux, Maurice
McManes, Valorie
Mills, Michael
Montina, Walter
Nash, Gerard
Padilla, Sonia
Parlee, Sean
Roy, Daniel
Ryan, Kimberly
Sask, Joseph
Shah, Pravinchandra
Shivji, Hussein
Smith, Lloyd
Tochor, Lenore
Villegas, Nerisa
Wagner, Mark
Yu, Emily

REFERRAL ARRANGEMENTS

Cheung, Yuk
Robichaud, Serge
Terzis, Anastasios

SALES COMMUNICATION

Doiron, Nathalie

STEALTH ADVISING

Pender, Darragh

SUITABILITY - INVESTMENTS

Gordon, David
Lumbers, Patrick
McIntyre, Donald

SUITABILITY - LEVERAGING

Gabrysz, Dorothy

SUPERVISION

Chan, Yvonne
De Thomas Wealth Management Corp.
FundEX Investments Inc.
Investia Financial Services Inc. (HollisWealth Advisory Services Inc.)
Investors Group Financial Services Inc.
Shah Financial Planning Inc.

UNAUTHORIZED/ DISCRETIONARY TRADING

Bodson, Marc
Briske, Byron
Corcoran, Ryan
Drysdale, James
Dunlop, Jeffrey
Loney, Robert
Mark, Taayla
Rhodes, Richard
Showalter, Kenneth
Stutz, Natascha

*Case is concluded on the date that the hearing panel issues its final Reasons for Decision.

GLOSSARY

ACTIVE SIGNATURE FALSIFICATION

Refers to instances in which an Approved Person or other individual signs the client's signature or initials on a document in an effort to make it appear the client actually signed the document.

APPROVED PERSON

Refers to an individual who is a partner, director, officer, compliance officer, branch manager, or alternate branch manager, employee or agent of a Member who (i) is registered or permitted, where required by applicable securities legislation, by the securities commission having jurisdiction, or (ii) submits to the jurisdiction of the MFDA.

BUSINESS STANDARDS

Refers to a breach of the high business standards required by MFDA Rule 2.1.1(b).

CANADIAN SECURITIES ADMINISTRATORS

Refers to the umbrella organization of provincial and territorial securities regulators in Canada.

COMMISSIONS AND FEES

Refers to allegations involving practices such as disclosure of commission structure and cost, and other issues such as where an Approved Person recommends a trade or multiple trades in a client's account for the purpose of generating sales commissions or otherwise creating a benefit for the Approved Person where there is little or no rationale for the trade.

COMPLAINT PROCEDURES

Refers to allegations involving the requirement that every Member shall establish written policies and procedures for dealing with client complaints that ensure that such complaints are dealt with promptly and fairly.

CONCENTRATION RISK

Refers to the risk posed to a client when a client's accounts are concentrated into a single investment or sector, which can be subject to greater volatility and pose greater risk than accounts that are well diversified.

DISCRETIONARY TRADING

Refers to a situation whereby a Member or Approved Person is granted authority by the client to make a trade without obtaining specific instructions from the client prior to the execution of the trade concerning one or more elements of the trade: selection of the security to be purchased or sold, the amount of the security to be purchased or sold, and the timing of the trade. MFDA Members and Approved Persons are not permitted to engage in discretionary trading.

FALSIFICATION

Refers to the false making or alteration of a document by which the rights or obligations of another person are affected but where a person is not deprived of a property or a right.

FORGERY

Refers to the creation of a false document with the intent that it be acted upon as the original or genuine document, and where the victim is deprived of property or rights.

FRAUD

Refers to an act of dishonest deception, misrepresentation, or an intentional distortion of truth in order to induce another to part with something of value or to surrender a legal right.

HANDLING OF FUNDS

Refers to the failure to properly handle client funds in accordance with MFDA requirements.

KNOW-YOUR-CLIENT (“KYC”)

Refers to the requirement that a Member and Approved Person collect information about a client to assist in making suitable investment recommendations.

LEVERAGING

Refers to the practice of using borrowed money for the purpose of investing.

MEMBER

Refers to mutual fund dealers that are Members of the MFDA.

MISAPPLICATION OF FUNDS

Refers to situations where funds in the rightful possession of an Approved Person or Member are put to an improper purpose for the benefit of a third party.

MISAPPROPRIATION

Refers to situations where a person has a right to be in possession of property but puts it to his or her own benefit.

MISREPRESENTATION

Refers to a misstatement or omission of a material fact with the intent to deceive.

OUTSIDE ACTIVITIES (“OA”)

Refers to any activity conducted by an Approved Person outside of the Member: (a) for which direct or indirect payment, compensation, consideration or other benefit is received or expected; (b) involving any officer or director position and any other equivalent positions; or (c) involving any position of influence.

PERSONAL FINANCIAL DEALINGS (“PFD”)

Refers to situations in which an Approved Person or Member engages in financial activity with a client. A concern arising from this type of conduct is that conflicts of interest arise in connection with such activity. PFD can include borrowing from clients, lending to clients, and engaging in private investment schemes with clients.

POLICIES AND PROCEDURES

Refers to the requirement on Members to establish and maintain written policies and procedures (that have been approved by senior management) for dealing with clients and ensuring compliance with the Rules, By-Laws and Policies of the MFDA, and applicable securities legislation.

PRE-SIGNED FORM

Refers to forms that have been signed by a client when they were blank or only partially completed.

PROVINCIAL SECURITIES LEGISLATION

Refers to the violation of provincial securities legislation and requirements for which there is no comparable MFDA requirement.

REFERRAL ARRANGEMENTS

Refers to an arrangement whereby a Member is paid, or pays a fee for the referral of a client to, or from, another person. All referrals must go through a Member.

SALES COMMUNICATIONS

Refers to the requirement that advertisements and sales communications must be approved by a designated partner, director, officer, compliance officer or branch manager before being issued. The rationale for this is to ensure that no misleading, inaccurate or otherwise prohibited information is provided to a client who may act upon such information in making investment decisions.

SENIOR

Refers to investors 60 years of age or over.

SIGNATURE FALSIFICATION

Refers to the creation, possession, or use of documents which have been pre-signed or on which client signatures have been falsified through other means. Examples include cutting and pasting a previous signature, signing a client's name to a document, having a client sign multiple forms for use in future trading, and using liquid paper to white out old instructions and write in new ones on a signed client form.

SUITABILITY

Refers to the requirement that recommendations made by an advisor be suitable in relation to a client's investment objectives, risk tolerance and other personal circumstances.

SUPERVISION

Refers to the MFDA's investigation of whether a supervisory failure may have contributed to situations where an Approved Person engaged in misconduct. Supervisory failures may include inadequacy in the procedures for supervision or in the actual supervision of others.

THEFT

Refers to the taking of property, not rightfully in one's possession, for personal use and exploitation.

TRANSFER OF ACCOUNTS

Refers to the transfer of an account without proper client consent or a delay in the transfer of the account.

VULNERABLE PERSON

Refers to investors particularly at risk due to circumstances such as language barriers, limited literacy, disability issues, or very limited financial resources.

UNAUTHORIZED TRADING

Refers to the practice of a Member or Approved Person making trades without the client's knowledge or approval.



RESOURCES

FURTHER INFORMATION

The MFDA website has additional information including with respect to the following areas:

- [Opening an Investment Account](#)
- [Protecting Yourself from Fraud](#)
- [Guide to the Hearing Process](#)
- [Sanctioned Guidelines](#)
- [Enforcement Hearings](#) (including [Hearings Schedule](#), [Current Cases](#), [Completed Cases](#) and [Cases Under Review/Appeal](#))
- [Hearing Procedures](#) (including [Rules of Procedure](#) and [Forms](#))
- [Related By-Law Sections](#) (Sections 18-26)
- [Enforcement Statistics](#) contains additional information on case handling activity
- [For Seniors](#)
- [For Investors](#)

OTHER RESOURCES

Ombudsman for Banking Services and Investments

Any action taken by the MFDA will not include an order that investors be compensated for any financial losses they may have suffered. Additionally, the MFDA is unable to assist clients with civil claims. Investors who wish to pursue financial compensation may wish to consult with the Ombudsman for Banking Services and Investments (www.obsi.ca or 1-888-451-4519) or a lawyer.

National Registration Search

In Canada, anyone trading securities or in the business of advising clients on such securities, including Approved Persons and Members, must be registered with the provincial or territorial securities regulator, unless an exemption applies. Check the [National Registration Search](#) to find out if an individual or firm is registered in your province or territory and what product and services a firm or individual can offer, or contact your provincial securities regulator.

Disciplined List

The Canadian Securities Administrators maintains a cross-jurisdictional [Disciplined List](#), which can be used to search for any disciplinary action taken against an individual or company by a provincial securities regulator or self-regulatory organization, including the MFDA.

HOW TO FILE A COMPLAINT

Information on how to file a complaint about a Member or Approved Person can be found at <https://mfda.ca/investors/how-to-make-a-complaint/>

INVESTORS CAN COMPLAIN ELECTRONICALLY BY:

 complaints@mfda.ca

 using the complaint form available on the website

 416-361-6332
(toll-free: 1-888-466-6332)

TORONTO OFFICE

121 King Street West
Suite 1000
Toronto, ON M5H 3T9

☎ (416) 361-6332 or
1-888-466-6332

✉ mfda@mfda.ca

PACIFIC OFFICE

650 West Georgia Street
Suite 1220
Vancouver, BC V6B 4N9

☎ (604) 694-8840

✉ PacificOffice@mfda.ca

PRAIRIE OFFICE

800-6th Avenue S.W.
Suite 850
Calgary, AB T2P 3G3

☎ (403) 266-8826

✉ PrarieOffice@mfda.ca



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