



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: Steven Jules Rethy

SETTLEMENT AGREEMENT

I. INTRODUCTION

1. 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 MFDA By-law No. 1, a hearing panel of the Atlantic Regional Council of the MFDA (the “Hearing Panel”) should accept the settlement agreement entered into between Staff of the MFDA (“Staff”) and the Respondent, Steven Jules Rethy (the “Settlement Agreement”).

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 MFDA 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 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 History

6. Since January 20, 2004, the Respondent has been registered in Alberta, New Brunswick, Newfoundland and Labrador, Ontario, and Prince Edward Island as a mutual fund salesperson (now known as a dealing representative) with Keybase Financial Group Inc. (the “Member”), a Member of the MFDA.

7. At all material times, the Respondent carried on business from a location in Dartmouth, Nova Scotia.

8. Previously, the Respondent was registered in the securities industry since 1990, as follows:

- October 2001 to January 16, 2004 – Cartier Partners Financial Services Inc.
- December 8, 1995 to October 2001 – Heritage Financial Services Ltd.
- May 17, 1990 to December 5, 1995 – Investors Group Financial Services Inc.

Contravention #1 - Concealing Information from the Member

9. In or about the late 1990s, the Respondent started servicing the mutual fund accounts of clients CM and DM.

10. In the ensuing years, the Respondent recommended to clients CM and DM that they borrow monies to invest in mutual funds, which the clients engaged in on three occasions, namely, in 2004, 2005, and 2007.

11. In January 2009, the Member issued revised leveraging guidelines, including more restrictive requirements regarding a client's loan to net worth ratio, and total debt servicing ratio.

12. Effective November 30, 2009, the Nova Scotia Securities Commission (the "Commission") imposed terms and conditions on the Respondent's registration such that the Respondent could only recommend leverage to a client where:

- the recommended leverage would not cause the client's leverage-to-liquid-net-worth ratio to exceed 30%;
- the accuracy of the client's income and net worth was verified by the client in writing;
- the assessment of the client's income and net worth was made on the basis of true and accurate information received by the client and approved in writing by the client; and
- the Know-Your-Client information or New Account Application form indicated that the client had:
 - risk tolerance of medium-high or high;
 - liquidity or time horizon of 11 years or more;
 - an age of 60 years or younger;
 - annual income of at least \$50,000; and
 - investment knowledge of good or sophisticated.

13. On March 9, 2010, the Respondent entered into a settlement agreement with Staff of the Commission ("NSSC Settlement Agreement") wherein he admitted to (regarding one client) keeping blank signed forms on file and signing the client's name on a letter of direction. In the NSSC Settlement Agreement, he agreed to be reprimanded, and to pay an administrative penalty in the amount of \$22,000 and costs in the amount of \$500.

14. On March 30, 2010, the Commission approved the NSSC Settlement Agreement, including the fine and costs amounts, and ordered the monies to be paid forthwith.

15. On or about June 3, 2010, the Respondent met with clients CM and DM and recommended that they borrow more monies to invest. Specifically, the Respondent recommended that clients CM and DM increase their bank homeowner line of credit to the maximum amount available and use those funds to invest \$100,000 in mutual funds for their joint non-registered account. At the time of this recommendation, client CM was 65 years old and client DM was 53 years old.

16. On or about June 10, 2010, the bank issued a draft in the amount of \$100,000 to clients CM and DM. The clients then provided the monies to the Respondent to invest in mutual funds for their account.

17. Also on June 10, 2010, the Respondent sought 'pre-approval' from the Member for the mutual fund purchase by clients CM and DM, in order to ensure that there would not be any delays in processing the transaction. At this time, the Member's head office compliance personnel questioned the Respondent regarding the proposed transaction for clients CM and DM, including whether the source of the funds was leveraged monies.

18. The Respondent advised the Member that the source of the funds was not leveraged monies, thus misleading the Member. The Respondent knew that the Member would not otherwise have authorized the transaction for clients CM and DM.

19. On or about June 11, 2010, clients CM and DM signed the necessary documents in order to complete the transaction, and the Respondent submitted the purchases to the Member for processing. The transaction was subsequently completed for the account of clients CM and DM.

Action Taken by the Member

20. In or about February 2018, the Member became aware that the source of clients CM and DM's funds for investment had been leveraged monies, contrary to what the Respondent had advised the Member.

21. In or about December 2018, the Member paid compensation of \$35,741 to clients CM and DM for losses incurred in relation to the investment recommendation made by the Respondent.

22. The Member subsequently deducted \$35,741 from the Respondent's commissions over a period of five months in 2019.

23. Additionally, in connection with the events described herein, the Member fined the Respondent \$1,500.

Additional Factors

24. There have been no other client complaints regarding this matter to the Member or to the MFDA.

25. The Respondent has not previously been the subject of MFDA disciplinary proceedings.

26. The Respondent states that since 2010, he has not recommended or implemented any new leveraged mutual fund transactions for clients.

27. By entering into this Settlement Agreement, the Respondent has saved the MFDA time, resources, and expenses associated with conducting a full hearing of the allegations.

V. CONTRAVENTIONS

28. In or about June 2010, the Respondent concealed from the Member that he had recommended that two clients borrow monies to invest, thus failing to abide by the terms and conditions regarding leveraging imposed on his registration and misleading the Member in response to its supervisory inquiries, contrary to MFDA Rule 2.1.1.

VI. TERMS OF SETTLEMENT

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

- a) The Respondent shall be suspended for a period of five months from conducting securities related business in any capacity while in the employ of or associated with

any MFDA Member commencing from the date of the final Order herein, pursuant to s. 24.1.1(c) of By-law No. 1;

- b) The Respondent shall be permanently prohibited from engaging in any new leveraging activities with clients, including recommending or applying for additional investment loans for clients, pursuant to s. 24.1.1(f) of MFDA By-law No. 1; which prohibition does not otherwise limit the servicing of clients with existing leverage.
- c) The Respondent shall pay a fine in the amount of \$10,000, pursuant to s. 24.1.1(b) of MFDA By-law No. 1;
- d) The Respondent shall pay costs in the amount of \$5,000, pursuant to s. 24.2 of MFDA By-law No. 1;
- e) The Respondent shall in future comply with MFDA Rule 2.1.1; and
- f) The Respondent shall attend in person (via videoconference) at the Settlement Hearing.

VII. STAFF COMMITMENT

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

31. Acceptance of this Settlement Agreement shall be sought at a hearing of the Atlantic 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.

32. 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 any 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.

33. 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 MFDA By-law No. 1 for the purpose of giving notice to the public thereof in accordance with s. 24.5 of MFDA By-law No. 1.

34. 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.

IX. FAILURE TO HONOUR SETTLEMENT AGREEMENT

35. 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 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.

X. NON-ACCEPTANCE OF SETTLEMENT AGREEMENT

36. 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 MFDA By-law No. 1, unaffected by this Settlement Agreement or the settlement negotiations.

37. 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.

XI. DISCLOSURE OF AGREEMENT

38. 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.

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

XII. EXECUTION OF SETTLEMENT AGREEMENT

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

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

DATED this 15th day of October, 2020.

“Steven Jules Rethy”

Steven Jules Rethy

“WR”

Witness – Signature

WR

Witness – Print Name

“Charles Toth”

Staff of the MFDA

Per: Charles Toth

Vice-President, Enforcement

Schedule “A”

Order

File No. 201965



Mutual Fund Dealers Association of Canada
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**IN THE MATTER OF A SETTLEMENT HEARING
PURSUANT TO SECTION 24.4 OF BY-LAW NO. 1 OF
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Re Steven Jules Rethy

ORDER

WHEREAS on April 15, 2020, the Mutual Fund Dealers Association of Canada (the “MFDA”) issued a Notice of Hearing pursuant to ss. 20 and 24 of MFDA By-law No. 1 in respect of Steven Jules Rethy (the “Respondent”);

AND WHEREAS the Respondent entered into a settlement agreement with Staff of the MFDA, dated October 15, 2020 (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 MFDA By-law No. 1;

AND WHEREAS the Hearing Panel is of the opinion that in or about June 2010, the Respondent concealed from the Member that he had recommended that two clients borrow monies to invest, thus failing to abide by the terms and conditions regarding leveraging imposed on his registration and misleading the Member in response to its supervisory inquiries, contrary to MFDA Rule 2.1.1.

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

1. The Respondent shall be suspended for a period of five months from conducting securities related business in any capacity while in the employ of or associated with any MFDA Member commencing from the date of the final Order herein, pursuant to s. 24.1.1(c) of By-law No. 1;
2. The Respondent shall pay a fine in the amount of \$10,000, pursuant to s. 24.1.1(b) of MFDA By-law No. 1, as follows:
 - a) \$5,000 shall be payable upon the acceptance of the Settlement Agreement; and
 - b) the balance of the fine (\$5,000) shall be payable by April 15, 2021;
3. The Respondent shall be permanently prohibited from engaging in any new leveraging activities with clients, including recommending or applying for additional investment loans for clients, pursuant to s. 24.1.1(f) of MFDA By-law No. 1; which prohibition does not otherwise limit the servicing of clients with existing leverage;
4. The Respondent shall pay costs in the amount of \$5,000 upon the acceptance of the Settlement Agreement, pursuant to s. 24.2 of MFDA By-law No. 1;
5. The Respondent shall in future comply with MFDA Rule 2.1.1; and
6. 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]

Per: _____
[Name of Industry Representative]

DM 774065