



**CIRO · OCRI**

Canadian Investment  
Regulatory  
Organization

Organisme canadien  
de réglementation  
des investissements

**IN THE MATTER OF  
THE INVESTMENT DEALER AND PARTIALLY CONSOLIDATED RULES**

**AND**

**INDEPENDENT TRADING GROUP INC.**

**SETTLEMENT AGREEMENT**

**PART I – INTRODUCTION**

1. The Canadian Investment Regulatory Organization (“CIRO”) will issue a Notice of Application to announce a settlement hearing pursuant to sections 8215 and 8428 of the Investment Dealer and Partially Consolidated Rules (the “Investment Dealer Rules”) to consider whether a hearing panel should accept this Settlement Agreement between Enforcement Staff and Independent Trading Group Inc. (“ITG” or the “Respondent”).

**PART II – JOINT SETTLEMENT RECOMMENDATION**

2. Enforcement Staff and the Respondent jointly recommend that the hearing panel accept this Settlement Agreement in accordance with the terms and conditions set out below.

**PART III – AGREED FACTS**

3. For the purposes of this Settlement Agreement, the Respondent agrees with the facts as set out in Part III of this Settlement Agreement.

**Overview**

4. In May and June 2020, ITG opened client accounts for two foreign broker dealers, Seven Mile Securities Inc. (“Seven Mile”) and Blacktower Financial Management (International) Limited (“Blacktower”). ITG did not conduct sufficient due diligence on the foreign broker dealers and took inadequate steps in relation to the trading activity of the foreign brokers in U.S. Over-the-Counter (“OTC”) securities. ITG did not adequately question the red flags raised by the trading activity, which frequently involved large deposits of OTC securities, followed by sales, and withdrawals of proceeds to offshore banks.

5. The supervisory policies and procedures established by ITG to supervise OTC trading were not consistently enforced and were inadequate to address the significant risks of OTC trading by foreign broker dealers operating on behalf of beneficial owners. The Respondent rejected numerous requests to deposit and sell OTC shares due to potential improprieties but did not always adequately monitor while trading was being carried out to detect new potential improprieties that may have arisen. Despite the issues that arose on account opening and arising from Seven Mile and Blacktower's trading between August 2020 to December 2021 (the "Relevant Period"), ITG failed to fulfill its gatekeeper obligations.
6. Dealer Members are relied on, and required to, act as gatekeepers to the capital markets to help prevent and detect potential illegitimate, abusive or fraudulent practices.

### **Background**

7. ITG is a Dealer Member with its head office in Toronto. ITG's business focuses on proprietary trading and institutional agency trading. It has no retail clients. Approximately 60% of ITG's clients traded exclusively in OTC stocks during 2021 and 2022.

### **Foreign Broker Dealer Clients**

8. One of ITG's traders had a prior relationship with Seven Mile, which company was incorporated in the Cayman Islands on June 9, 2011. Seven Mile opened a Margin account at ITG on June 23, 2020. DF was listed as 100% owner and Managing Director for Seven Mile.
9. Blacktower is a corporation registered as a broker-dealer in the Cayman Islands. It became an ITG client on May 28, 2020, by way of referral from JSX Investments Limited ("JSX"), a Bahamas company. Blacktower opened a number of accounts at ITG. Blacktower's regional manager was listed as BU.

### **All foreign broker dealer clients treated the same**

10. On account opening, ITG designated the foreign broker dealers as "medium risk," and did not change that designation. In September 2020, the Respondent implemented a policy that, for AML purposes, any client approved to trade in OTC securities would be designated as "high risk". ITG did not apply this policy to the foreign registered broker dealers.

11. ITG advised Enforcement Staff (despite assigning a risk rating that ostensibly differentiated between medium and high risk clients), that ITG treated each foreign broker dealer client the same way. Practically speaking, despite risk ratings for Seven Mile and Blacktower being 64 (the highest number possible in the medium range), that categorization did not increase ITG's review for its foreign broker dealer clients.
12. In addition, for a time after account opening, both Seven Mile and Blacktower were trading on behalf of another entity, Gel Direct Trust ("GEL"). The Respondent made inadequate inquiries during these initial months into the trading relationship between Seven Mile, Blacktower and GEL.
13. GEL was subsequently named in an SEC complaint dated November 17, 2022, which alleged that it acted as an unauthorized broker to execute more than 19,000 trades of more than 300 billion shares of stock for over 400 issuers.

#### **Summary of Seven Mile and Blacktower trading activity**

14. Seven Mile and Blacktower's trading activity through ITG involved deposits of large volumes of OTC securities and the liquidation of these securities, with very few purchases. The funds from sales were regularly transferred out of Seven Mile and Blacktower's accounts to bank accounts in the broker dealers' names in foreign jurisdictions.

#### **ITG asked questions when deposits were received in some instances**

15. When first receiving deposit requests, the Respondent did ask questions in some instances concerning the deposits and the ultimate beneficial owner. In some instances, ITG rejected a deposit of securities or requested additional information or documents in support, such as an updated lawyer's opinion letter, where the lawyer's name appeared on the OTC Market Group Inc.'s list of prohibited service providers.
16. For example, on June 25, 2021, ITG declined Seven Mile's deposit package for 3.5 million shares of CYCA, advising Seven Mile that it was rejected due to CYCA's connection to HZ, who previously pled guilty to fraud.
17. In another example, in January 2021, ITG declined Blacktower's request to deposit 250,000 shares of QMCI. ITG advised Blacktower that it could not accept the package as Blacktower

did not have a Share Purchase Agreement in support of the request, nor could Blacktower advise how the shares were purchased by the seller or the price paid.

18. After opening its account with the Respondent in June 2020, Seven Mile provided deposits for its client GEL. The Respondent advised Enforcement Staff that after September 2020, the Respondent was refusing to accept any further deposits for GEL, in part because GEL did not appear to be the beneficial owner of the shares being deposited.

#### **OTC Securities**

19. Significant risks are associated with OTC securities. OTC issuers are not required to provide much financial information. OTC securities are generally illiquid and volatile and are frequent targets of market manipulation.
20. The OTC Markets Group Inc. (the “OTC Markets Group”) is a U.S. financial market which provides price and liquidity information for OTC securities. It also takes steps to provide risk tools and timely information to assist investors in OTC securities.
21. These tools include “Caveat Emptor” and “Stock Promotion” flags assigned to securities by the OTC Markets Group. The Caveat Emptor flag indicates the OTC Markets Group determination that there may be a potential risk to investors, a known investigation of potentially fraudulent activity committed by an issuer or its insiders, a regulatory suspension, or disruptive corporate actions, amongst other reasons. The Stock Promotion flag is assigned if the OTC Markets Group detects potential promotional activity relating to a security. It monitors for anonymous paid promotions, possible connections to bad actors, and evaluates the promotion’s potential impact on trading.
22. The OTC Markets Group provides a “Canari risk score,” essentially a compliance analysis metric that aggregates these key data points, among others, such as shell risk, price and volume change analysis, and shares outstanding change analysis.

#### **Seven Mile Account Opening**

23. In June 2020, at account opening, ITG prepared a Risk Questionnaire for Seven Mile, dated June 18, 2020. When asked by ITG if Seven Mile was aware of any actual, suspected or alleged fraud affecting the entity, DF answered “Seven Mile Securities was alleged for

Stock fraud by MyeCheck however it was only a misunderstanding, and the charges were dropped by the company.”

24. The Respondent advised Enforcement Staff that according to a December 2014 civil lawsuit filed in California, MyeCheck, a Wyoming company, sued certain defendants for fraud, alleging that as a result of the fraud of those other defendants, MyeCheck had issued shares in MyeCheck to parties including Seven Mile. According to a 2016 US District Court decision involving MyeCheck’s motion for default judgment against two other defendants, MyeCheck had settled with Seven Mile and proceedings were dismissed against Seven Mile by MyeCheck.
25. ITG completed a New Client Risk Weighting Assessment for its new clients. High risk clients were assigned a score between 65 and 90. Seven Mile is a foreign broker dealer registered in the Cayman Islands. The clients of Seven Mile were not clients of the Respondent. ITG did not have direct insight into the clients of Seven Mile. ITG assessed Seven Mile as a medium risk client. ITG gave Seven Mile a risk score of 64 in its document dated June 23, 2020.
26. Despite ITG’s Higher Risk Trading Policy dated September 2020, indicating that clients approved to trade OTC securities shall be designated as “high risk” for AML monitoring purposes, ITG continued to designate Seven Mile as a medium risk client.

#### **Seven Mile Trading Activity**

27. During the Relevant Period, Seven Mile deposited large amounts of U.S. OTC securities into its account, sold the securities (often immediately), and then regularly wired the sales proceeds out to Seven Mile bank accounts in offshore jurisdictions. There were very few buys during the Relevant Period, compared to the volume of sales. During this period, the total value of Seven Mile’s sales was \$160,225,094 and \$4,195,987 in purchases.
28. ITG asked for legal opinions and share transfer agreements when securities were deposited by Seven Mile. The legal opinions received were standard form and did not always address key elements of the transactions, such as the identity of the ultimate beneficial owners. The opinions simply indicated if the shares were subject to any restrictions or that the purchaser was not affiliated with the issuer. In addition, on numerous occasions Seven Mile

sent opinions from a lawyer who appeared on the OTC Market Group's list of prohibited service providers, leading to ITG rejecting the deposit until another opinion was provided.

29. Between July 2020 and October 2021, Seven Mile wired sale proceeds of \$143,250,000 to its bank accounts at the Standard Bank of South Africa Limited and wired sale proceeds of \$2.8 million to its bank accounts at the Butterfield Bank in the Cayman Islands.
30. Numerous foreign jurisdictions were involved with Seven Mile's trading. For example, on August 18, 2020, Seven Mile asked ITG to deposit over 2.4 million shares of Palayan Resources Inc. ("PLYN"). These shares were transferred via the Depository Trust Company ("DTC"), (a U.S. company) from US Bank, from the account of GEL. Seven Mile's deposit package included various supporting documents, indicating that an individual from a foreign jurisdiction purchased 2.5 million shares for \$25,000 on June 12, 2020, from an individual in another foreign jurisdiction, who was earlier indicated as the Secretary of PLYN (a Nevada corporation) and who was issued 10 million shares prior to the sale to the first individual.
31. ITG allowed Seven Mile to sell securities while the OTC Markets Group had flagged promotional activity, as seen below. ITG also allowed Seven Mile to sell OPTI and ATAO during a period where the OTC Markets Group risk score had increased since the shares were deposited. Ongoing monitoring of the risk scores or promotional flags was not referred to in ITG's approved policies and procedures manual.
  - OPTI sales January 4, 2021 to October 14, 2021 while the stock was subject to a promotional activity alert between August 13 to September 15, 2021;
  - ATAO sales January 4, 2021 to February 4, 2021 while the stock was subject to a promotional activity alert between January, 15, 2021 and March 6, 2021;
  - LQWC sales January 6, 2021 to October 21, 2021 while the stock was subject to a promotional activity alert between May 18 and June 2, 2021;
  - VGLS sales January 27, 2021 to February 5, 2021 while the stock was subject to a promotional activity alert between February 4 and March 23, 2021;

- QGSI sales August 18, 2021 and November 15, 2021 while the stock was subject to a promotional activity alert between August 17, 2021 and October 23, 2021; and,
- ABTI sales October 13, 2021, to November 29, 2021 while the stock was subject to a promotional activity alert between October 12 and 28, 2021.

### **High Trading Volume by Seven Mile**

32. Seven Mile often traded in high volume during the periods above, including when the securities were under a promotional activity alert. For example, on each of August 19, 20, 25 and 31, 2021, the trading volume of QGSI through ITG was between 25.52% and 29.29% of the total daily volume on those dates.

### **Seven Mile fined by CIMA**

33. In October 2021, the Cayman Islands Monetary Authority (“CIMA”) imposed a \$250,000 fine on Seven Mile for anti-money laundering violations related to Seven Mile’s past AML related policies and procedures being deficient. When ITG became aware of the CIMA fine, they discussed the details with Seven Mile and understood that the policies and procedures had been updated and were then compliant with the CIMA requirements. ITG did not change its risk assessment of Seven Mile and continued to allow Seven Mile to trade until February 2022.
34. No later than this date in October 2021, ITG should have taken steps to address the multiple issues with the circumstances of Seven Mile’s trading and known that its supervision was inadequate.

### **Multiple regulatory requests for information and documents**

35. ITG received multiple regulatory requests for information and documents in late 2020 and throughout 2021. On February 10, 2022, Staff sent ITG a letter advising that Staff was opening an investigation. The Respondent subsequently suspended trading for Seven Mile.

### **Amount obtained by ITG from Seven Mile’s trading activity**

36. Between June 2021 and December 2021, the amount obtained by ITG as a result of Seven Mile's trading activity was \$557,710.

### **Blacktower Account Opening**

37. Blacktower is a foreign broker dealer registered in the Bahamas. The clients of Blacktower were not clients of ITG. ITG did not have direct insight into the clients of Blacktower. ITG's May 28, 2020 New Client Risk Weighting Assessment assigned Blacktower a score of 64, indicating it was a medium risk client.
38. Despite ITG's Higher Risk Trading Policy dated September 2020, indicating that clients approved to trade OTC securities shall be designated as "high risk" for AML monitoring purposes, ITG continued to assess Blacktower as a medium risk client.

### **Referral Agreements**

39. ITG accepted Blacktower as a client by way of referral from JSX Investments Limited ("JSX"), a Bahamian company. JSX's website indicates that it offers an "Over the Counter Program" as one of its services, including finding an offshore broker dealer, account approval, trade execution and sales proceeds and fund settlement and wire transactions. ITG and JSX entered into a referral agreement dated March 17, 2020. (the "JSX Referral Agreement.")
40. Oldfield Capital Group LLC ("Oldfield") is located in New York and is a U.S. Broker Dealer. Oldfield and ITG entered into a referral agreement dated June 8, 2020. (the "Oldfield Referral Agreement")
41. The JSX Referral Agreement and the Oldfield Referral Agreement both list Blacktower as a "Referred Party". According to ITG, despite the terms of the Oldfield Referral Agreement, Oldfield only referred one party, namely GEL, through Blacktower. The JSX and Oldfield Referral Agreements permitted entities such as GEL to trade at ITG through Blacktower. ITG advised that after February 2021, ITG refused to accept deposits for GEL from Blacktower.

## Blacktower Trading Activity

42. During the Relevant Period, Blacktower deposited large amounts of OTC securities into its accounts, sold the securities (often immediately) and then regularly wired the sales proceeds out to its bank accounts in offshore jurisdictions. There were very few buys during the Relevant Period, compared to the volume of sales. During this period, sales in Blacktower's accounts totaled \$181,761,250, while purchases totaled \$3,793,558.
43. In the first few months of trading activity, Blacktower's accounts received securities on behalf of GEL. GEL was not an ITG client.
44. ITG asked for legal opinions and share transfer agreements when securities were deposited by Blacktower. The legal opinions were standard form and did not always address key elements of the transactions, such as the identity of the ultimate beneficial owners. The opinions simply indicated if the shares were subject to any restrictions or that the purchaser was not affiliated with the issuer.
45. Similar to Seven Mile, numerous foreign jurisdictions were involved in Blacktower's trading activity.
46. Blacktower sold securities while the OTC Markets Group had flagged promotional activity, as seen below:
  - ATA0 sales January 4, 2021 to September 9, 2021 while the stock was subject to a promotional activity alert between January 15 and March 6, 2021;
  - BKRP sales February 5, 2021 to March 17, 2021 while the stock was subject to a promotional activity alert between February 24, 2021 and March 20, 2021;
  - INSD sales June 18 and November 22, 2021 while the stock was subject to a promotional activity alert between November 8 to 23, 2021;
  - CGSI sales on November 17, 2021 and December 15, 2021 while the stock was subject to a promotional activity alert between November 29, 2021 to December 14, 2021;

- DATI sales January 5, 2021 to October 29, 2021 while the stock was subject to a promotional activity alert between July 22, 2021 and August 6, 2021.
  - LQWC sales February 1, 2021 to December 15, 2021 while the stock was subject to a promotional activity alert between May 18 and June 2, 2021.
  - PLYN sales April 8, 2021 to July 14, 2021 while the stock was subject to a promotional activity alert between June 29 and July 29, 2021
  - SPRV sales March 4, 2021 to November 30, 2021 while the stock was subject to a promotional activity alert between May 12 and 29, 2021.
47. As above with Seven Mile, on occasion ITG allowed Blacktower to trade while the OTC Markets Group risk score was increasing, for example, CGSI, PLYN, SDNI and VLGS, during the above noted selling periods in 2021. Ongoing monitoring of the risk scores or promotional flags was not referred to in ITG's approved policies and procedures manual.

#### **High Trading Volume by Blacktower**

48. Blacktower often had high trading volume in the above securities, and on occasion while the security was under a promotional activity alert. For example, while SDNI was under a promotional activity alert between August 6 and August 21, 2021, Blacktower sold SDNI on August 6, 9, 10, 11, 12, 13, 16, 18, 19 and 20, 2021. Blacktower's trading volumes ranged between 20.34% and 47.14% between August 9 and August 20, 2021.
49. In an email dated August 21, 2020, ITG advised Blacktower that regarding orders placed by Blacktower on behalf of GEL, that (amongst other things) "under no circumstances will we allow ITG's total trading activity in any given security to exceed 25% of the daily volume of any given security."
50. ITG did not impose this same restriction on trading by other Blacktower clients. There were numerous instances in 2021 where Blacktower's trading volume was greater than 25% of the daily volume and at times greater than 50%.
51. There were 1,883 instances between January 4, 2021 and December 15, 2021, where Blacktower's daily trading volume for a specific security exceeded 25% of the daily total

market volume. Some of these instances include trades carried out where there was little volume beyond the trades placed by Blacktower and carried out by ITG.

52. There were 751 instances between January 4, 2021 and December 15, 2021, where Blacktower's daily trading volume for a specific security exceeded 50% of the daily total market volume. Some of these instances include trades carried out where there was little volume beyond the trades placed by Blacktower and carried out by ITG.

#### **Funds transferred out to foreign bank accounts**

53. On numerous occasions, Blacktower transferred funds out of its ITG accounts to Blacktower accounts at Butterfield Bank or Fidelity Bank, both located in the Cayman Islands, with the recipient as Blacktower.

#### **Amount obtained by ITG as a result of Seven Mile and Blacktower's trading activity**

54. In addition to the above amount obtained regarding Seven Mile, between June 2021 and December 2021, the amount obtained by ITG as a result of Blacktower's trading activity was \$5,182,730.
55. Enforcement Staff and the Respondent agree that \$1.5 million is a reasonable approximation of the amounts obtained by the Respondent as a result of its failure to discharge its gatekeeper obligations.

#### **Additional considerations**

56. The Deposit/Withdrawal at Custodian ("DWAC") is a service offered by the DTC, designed for the electronic transfer of securities between DTC participants and transfer agents.
57. ITG ceased to accept DWAC deposits as of July 31, 2024 for any client trading in U.S. OTC securities.
58. ITG has allowed Blacktower accounts to sell OTC securities since July 31, 2024, where the DWACs had been processed and shares transferred into Blacktower accounts prior to July 31, 2024.

## **Conclusion**

59. Despite red flags, including the volume of illiquid securities deposited, the large volume of sales with few purchases, rising Canari scores, the presence of “promotional activity” flags and the transfer out of funds to offshore banks, ITG did not adequately question Seven Mile and Blacktower’s trading activity and did not adequately monitor flags after the original deposit.
60. The steps taken to monitor the OTC trading, such as assigning a risk rating to the client, checking Canari scores, Caveat Emptor Flags, and establishing trading limits for the securities traded were not consistently enforced. In all the circumstances, ITG’s conduct was not sufficient to discharge its gatekeeper obligations.

## **PART IV – CONTRAVENTIONS**

61. By engaging in the conduct described above, ITG committed the following contravention of CIRO requirements:

Between August 2020 and December 2021, the Respondent failed to act as a gatekeeper in relation to trading activity in U.S. OTC securities by two foreign broker dealer clients, contrary to Investment Dealer Rule 1400.

## **PART V – TERMS OF SETTLEMENT**

62. ITG agrees to the following sanctions and costs:
- (i) A fine in the amount of \$500,000.
  - (ii) Disgorgement in the amount of \$1,500,000.
  - (iii) Costs in the amount of \$50,000.
63. If this Settlement Agreement is accepted by the hearing panel, ITG agrees to pay the amounts referred to above immediately upon such acceptance, unless otherwise agreed between Enforcement Staff and ITG.

## **PART VI – STAFF COMMITMENT**

64. If the hearing panel accepts this Settlement Agreement, Enforcement Staff will not initiate any further action against ITG in relation to the facts set out in Part III and the contraventions in Part IV of this Settlement Agreement, subject to the provisions of the paragraph below.
65. If the hearing panel accepts this Settlement Agreement and ITG fails to comply with any of the terms of this Settlement Agreement, Enforcement Staff may bring proceedings under Investment Dealer Rule 8200 against ITG. These proceedings may be based on, but are not limited to, the facts set out in Part III of this Settlement Agreement.

#### **PART VII – PROCEDURE FOR ACCEPTANCE OF SETTLEMENT**

66. This Settlement Agreement is conditional on acceptance by the hearing panel.
67. This Settlement Agreement shall be presented to a hearing panel at a settlement hearing in accordance with sections 8215 and 8428 of the Investment Dealer Rules, in addition to any other procedures that may be agreed upon between the parties.
68. Enforcement Staff and ITG agree that this Settlement Agreement will form all the agreed facts that will be submitted at the settlement hearing, unless the parties agree that additional facts should be submitted at the settlement hearing. If ITG does not appear at the settlement hearing, Staff may disclose additional relevant facts, if requested by the hearing panel.
69. If the hearing panel accepts this Settlement Agreement, ITG agrees to waive all rights under the Rules and By-laws of CIRO and any applicable legislation to any further hearing, appeal and review.
70. If the hearing panel rejects this Settlement Agreement, Enforcement Staff and ITG may enter into another settlement agreement or Enforcement Staff may proceed to a disciplinary hearing based on the same or related allegations.
71. The terms of this Settlement Agreement are confidential unless and until this Settlement Agreement has been accepted by the hearing panel.

72. This Settlement Agreement will become available to the public upon its acceptance by the hearing panel and CISO will post a copy of this Settlement Agreement on the CISO website. CISO will publish a notice and news release of the facts, contraventions, and the sanctions agreed upon in this Settlement Agreement and the hearing panel's written reasons for its decision to accept this Settlement Agreement.
73. If this Settlement Agreement is accepted, ITG agrees that neither they nor anyone on their behalf, will make a public statement inconsistent with this Settlement Agreement.
74. This Settlement Agreement is effective and binding upon ITG and Enforcement Staff as of the date of its acceptance by the hearing panel.

#### **PART VIII – EXECUTION OF SETTLEMENT AGREEMENT**

75. This Settlement Agreement may be signed in one or more counterparts which together will constitute a binding agreement.
76. An electronic copy of any signature will be treated as an original signature.

DATED this “17<sup>th</sup>” day of “March”, 2026.

“Dave Houlding”  
Witness

“Independent Trading Group Inc.”  
Respondent Independent Trading  
Group Inc.

“Kathryn Andrews”  
Kathryn Andrews  
Senior Enforcement Counsel on  
behalf of Enforcement Staff of the  
Canadian Investment Regulatory  
Organization

The Settlement Agreement is hereby accepted this “15<sup>th</sup>” day of “April”, 2026 by the following  
Hearing panel:

Per: “Martin Friedland”  
Chair

Per: “Zahra Bhutani”  
Industry Member

Per: “Lou D’Souza”  
Industry Member