Re Scott

IN THE MATTER OF:

The Mutual Fund Dealer Rules

and

Ronald Aleri Scott

2026 CIRO 17

Canadian Investment Regulatory Organization
Hearing Panel (Alberta District)

Heard: January 26, 27, 28 and April 20, 2026 in Calgary, Alberta
Decision and Reasons: May 20, 2026

Hearing Panel:
Don Young KC, Chair, Martin Davies, Jim Ross

Appearances:
Jennie Brodski, Enforcement Counsel
Lerina Koornhof, Enforcement Counsel
Scott Chimuk, for Ronald Aleri Scott
Mark Jacka, for Ronald Aleri Scott

DECISION ON THE MERITS AND REASONS

INTRODUCTION

[1] Staff of the Canadian Investment Regulatory Organization (respectively, **Staff** and **CIRO**) alleged that Ronald Aleri Scott (**Scott**) borrowed money from clients, giving rise to a material conflict of interest, and engaged in unapproved outside activity with clients involving loans, in breach of the Mutual Fund Dealers Association Rules (respectively, **MFDA** and **MFD Rules**). Scott contested the allegations.

[2] A hearing on the merits (**Hearing**) was conducted over three days in January 2026, with witness testimony and written evidence presented to the Hearing Panel. The Hearing was adjourned to permit the parties to provide written and oral submissions on liability, which was finally completed on April 20, 2026.

[3] The Hearing Panel's decision on the merits was reserved at that time. These are its decision and reasons.

ALLEGATIONS

[4] The allegations against Scott made by Staff are twofold:

> Contravention 1 – Between October 2021 and July 10, 2023, the Respondent borrowed monies from clients giving rise to material conflicts of interest, which the Respondent failed to identify, report to the Dealer Member, or address in the best interests of the clients, contrary to the Dealer Member's policies and procedures and MFD Rules 2.1.4(2), 2.1.1, and 1.1.2 (as it relates to Rule 2.5.1); and
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> Contravention 2 – Between April 2, 2015 and July 10, 2023, the Respondent engaged in an unapproved outside activity, contrary to MFD Rule 1.2.1(c)

FACTS

MFDA Registration

[5] Scott was registered and acted as an approved person (**AP**) pursuant to the MFD Rules for more than 30 years, from 1990 until he resigned on July 10, 2023.[1]

[6] During the period relevant to these allegations, Scott was registered firstly with Member Dealer IPC Investment Corporation (**IPC**), and then with Member Dealer HUB Capital Inc. (**HUB**). Scott's move from IPC to HUB took place on approximately October 4, 2019, when IPC amalgamated with HUB. Scott was thereafter registered with HUB until his resignation in 2023.[2]

Disclosure to Member Dealer

[7] Scott is the sole director and shareholder of two corporations, Ron Scott Financial Consulting Inc. (**RSFC**), and RS0206 Holdings Ltd. (**RS0206**). [3]

[8] As part of Scott's onboarding process from IPC to HUB in 2019, he provided information to HUB for inclusion on its Outside Activity Approval form.[4] That form, dated October 3, 2019, and signed by Scott and HUB's then Regional Compliance Officer, contained the following excerpts:

- Business Name: *Ron Scott Financial Consulting Ltd.* [sic]
- Nature/Type of Business: *Insurance*
- Will you receive compensation for this activity? *Yes*
- Will there be a link between your company's clientele and the clients that you have as a mutual fund representative with HUB Capital Inc.? *Yes*
- If you are already engaged in the activity and did not obtain approval from HUB Capital prior... please explain why: *Disclosed with current dealer (IPC)*
- Are there any potential conflicts of interest between the duties arising from this activity and your duties to HUB Capital Inc. or to your clients? *No*

[9] If 'no', please explain why you believe there is no potential conflict of interest: This business is conducted under a separate license and separate contracts from the MF side of the business.

[10] For that same onboarding process with HUB, Scott provided information for a Due Diligence Report and Summary.[5] That summary included a description of Scott's outside activities, with references to "Ron Scott Financial Consulting Ltd." engaging in "Insurance sales", and "RS0206 Ltd – Holdco (**Horse Business**)".

Business Activities

[11] On April 2, 2015, Scott, through RSFC, entered into a demand loan agreement with Company 1 (**2015 Agreement**), whereby RSFC loaned approximately $1 million to Company 1, from commission funds Scott obtained from the issuance of four life insurance policies.[6]

[12] On March 14, 2019, several months prior to Scott's onboarding to HUB, as a result of the death of one of the individuals involved with the 2015 Agreement, RSFC entered into promissory notes with Company 1 and Company 2 (**Notes**).[7] The Notes were with respect to loans made by RSFC to Company 1 and Company 2 for the approximate amount of $2 million. One of the Notes related back to the 2015 Agreement. Pursuant to the Notes terms, the companies were obligated to make interest payments over time to RSFC.

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[1] Hearing Transcript (**Transcript**) Day 1, pp 22 and 23; Exhibit 11, pp 25, 26
[2] Exhibit 11, p 25; Exhibits 8 and 22
[3] Exhibit 7; Exhibit 11, pp 8, 23
[4] Exhibit 8
[5] Exhibit 22
[6] Exhibit 9; Exhibit 11, pp 10-19
[7] Exhibit 9; Exhibit 11, pages 10-22

[13] In November 2019, shortly after Scott's transition to HUB, LG and TG became mutual fund clients of HUB, and their accounts were serviced by Scott. LG and TG were long-time friends and clients of Scott.[8]

[14] On October 1, 2021, RSFC sold the rights it held in the Notes to LG and TG for approximately $2 million (**LG Notes Sale**).[9] Scott did not recall how the deal had been approached with LG and TG, but he wanted to get the Notes paid out sooner and they were interested. Scott said it was profitable for them to do so, as he was paying an insurance premium for them as interest on their money.[10]

[15] Scott stated that LG and TG wanted some guarantees on the Notes and the payment made to RSFC of the $2 million, and as a result a loan agreement was entered into. Among other terms, that loan agreement obligated RSFC to put up a parcel of land it owned as collateral for the $2 million, and to invest $1,500,000 in segregated funds (with LG and TG being the sole beneficiaries).[11]

[16] That same month, October 2021, an account was opened with HUB in the name of RS0206, and segregated funds in the amount of $1,500,000 – sourced from the LG Notes Sale – were processed. Scott's colleague at HUB, JJ, was listed as the representative on the RS0206 account.[12] It was subsequently determined that individuals could not be named beneficiaries in a corporate account, and so, approximately one year later, the segregated funds were transitioned into mutual funds in an RS0206 account at HUB.[13]

[17] Scott earned and was paid trailer fees on these mutual fund purchases in the amount of $1,897.[14]

Scott Transfer of Mutual Fund Business to JJ

[18] During this same period, with an effective date of July 1, 2021, Scott entered into an agreement with JJ to sell to her his mutual fund and segregated fund blocks of business (**JJ Sale**).[15] Under the JJ Sale, Scott was to transfer all his clients into a joint code shared 70/30% with JJ. It was agreed there would be no up-front or periodic payments made by JJ to Scott, with JJ to receive some immediate income from the clients through HUB.

[19] The JJ Sale contained a client transition timeline from Scott to JJ. The client transition was to commence on July 1, 2021, with introductory joint meetings (Scott to lead, JJ doing investments) to be held from then until December 2021. Second joint annual meetings with clients were to take place from August to December that same year, with JJ leading and Scott observing. Third annual meetings were to take place, from January to February 2022, with JJ going solo and Scott available if needed. For the remainder of 2022, JJ was to have solo annual meetings with clients (Scott available if needed), and 2023 would see the transfer of remaining clients to JJ's code. These timelines were not followed, according to Scott – because JJ never set up the meetings.

Witness Testimony at the Hearing

[20] Caron Handsaeme, Senior Investigator with CIRO, testified in person at the Hearing. She was responsible for the investigation of Scott. The CIRO investigation was initiated in August 2023 based on a MET (Member Event Tracking) system filing made by HUB, alerting CIRO of a possible compliance infraction.[16] The nature of the concerns she investigated involved alleged personal financial dealings as well as outside activities.

[21] During her investigation, Ms. Handsaeme gathered from other sources and parties many of the documents that were exhibited at the Hearing by CIRO. These documents included: HUB's Policies and Procedures Manual (**HUB Manual**) in force at the time, corporate searches for Scott's businesses, the loan and related documents relating to the transactions with Company 1 and Company 2, and LG and TG, HUB advisor disclosure and outside activity forms and commission statements, and the JJ Sale agreements.

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[8] Exhibit 11, p 37; Transcript Day 1, p 74
[9] Exhibit 10
[10] Exhibit 11, pp 39, 40
[11] Exhibit 11, pp 39-46; Exhibit 10
[12] Hearing Transcript Day 2, p 27; Exhibit 16
[13] Hearing Transcript Day 2, pp 27, 28; Exhibit 17
[14] Exhibit 19
[15] Exhibit 12
[16] Exhibit 23

[22] Ms. Handsaeme also conducted an interview of Scott on June 24, 2024. Scott identified in that CIRO interview that he had disclosed RSFC to HUB, and that he had obtained approval from HUB to use it for his insurance business. He believed he had also disclosed RS0206 to HUB as well.[17]

[23] Scott said he "probably didn't" disclose to HUB the sale of the Notes to LG and TG, because they were not mutual fund clients at the time (due to the sale of his book to JJ). As of July 21, 2021, pursuant to the JJ Sale, he believed all of his mutual fund and segregated fund clients were not his anymore. The 70% trailer fees he earned after the sale were attributed to the funds JJ owed to him on closing – it was her money, or should have been, he said, to pay the purchase price for his book of business. The only way HUB would pay Scott, he understood, was through the joint code. [18]

[24] Scott confirmed the LG and TG accounts were part of the sale to JJ.[19] LG and TG remained clients of HUB until sometime after Scott's resignation in July 2023.

[25] Scott identified and confirmed in the interview the documents in support of the Notes acquisition, the sale of the Notes to LG and TG, and the sale of his book to JJ, among other items.

[26] In cross examination, Ms. Handsaeme confirmed that prior to 2019 Scott was with IPC. She acknowledged she did not ask anyone at IPC what Scott did or did not disclose to them.[20] She confirmed that JJ was listed as the advisor of record on the segregated fund statement, and was listed as the advisor on the new account opening document for the RS0206 new account opening document.[21] JJ received 100% of the trailers in the segregated funds account.[22]

[27] Ms. Handsaeme did not speak with LG in her investigation.[23] She did not ask LG if they were a client of Scott or RSFC on October 21, 2021, or at any time thereafter.[24]

[28] Richard Bergeron, regional compliance officer for HUB, testified remotely at the Hearing. He said Scott was one of the mutual fund representatives in his region working out of Calgary, and he has known him since 2020. Mr. Bergeron was tasked with assisting HUB's chief compliance officer, Cheryl Hamilton, with its internal investigation of Scott. He understood HUB was investigating a case of borrowing money from clients.[25] He said he was not involved in great detail, however, most of the work was done by her.

[29] Mr. Bergeron testified that a joint code was set up for Scott's clients as a result of the sale of Scott's book to JJ, and all clients were moved to that code on July 6, 2021. A joint code is where there are two advisors on a single mutual fund rep code.[26] He confirmed Scott had obtained outside activity approval from HUB for RSFC and its use for the sale of insurance. Scott also obtained approval for RS0206 (horse boarding business), and a charitable organization called Big Hearted Mavericks.[27]

[30] Based on a HUB commission statement for Scott for the period July 1, 2021 to July 12, 2023, Mr. Bergeron confirmed that HUB had paid trailing fees to Scott, JJ, and to both of them (under the joint advisor code).[28]

[31] In cross examination, Mr. Bergeron stated that as a joint advisor on a joint advisor code, Scott was just as responsible as the other advisor (JJ). Both advisors had to maintain all their registration requirements, CE credits, efficiencies – everything had to be in order just as if it was a single advisor code.[29]

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[17] Exhibit 11, pp 9, 10, 24, 25
[18] Exhibit 11, pp 41-45
[19] Exhibit 11, pp 37, 38
[20] Transcript Day 2, p 64
[21] Transcript Day 2, pp 67, 68
[22] Transcript Day 2, pp 68, 69
[23] Transcript Day 2, p 73
[24] Transcript Day 2, p 75
[25] Transcript Day 3, p 10
[26] Transcript Day 2, pp 116, 117
[27] Transcript Day 2, pp 121-124, 134-136
[28] Exhibit 19; Transcript Day 2, pp 174-177
[29] Transcript Day 2, pp 108-110

[32] Mr. Bergeron had no recollection of Scott's involvement with LG and TG after the JJ Sale in July 2021.[30] Having regard to a HUB Financial Investigation Report dated August 14, 2023 (**HUB Investigation Report**), Mr. Bergeron asserted as correct a statement that Scott was not active in servicing the mutual fund investment accounts after July 6, 2021.[31] He agreed with the statement Scott was not actively engaged in the sale or ongoing management of the mutual fund and segregated fund business that he sold to JJ, including the investment activity for RS0206.[32] Scott only remained an advisor on the joint code to facilitate JJ's purchase of his business, as she did not have the financial resources for alternate funding.[33]

[33] Mr. Bergeron acknowledged that RS0206 was an approved outside activity for Scott.[34]

[34] The HUB Investigation Report indicated that JJ was interviewed by HUB compliance on June 20, 2023. Mr. Bergeron understood she had confirmed in the interview, with respect to the joint code with Scott, that she "did it all", by meetings with clients, doing updates, etc., and that it was her client call not Scott's. He also understood she confirmed Scott had not been involved in any conversations with clients under the new code.[35] The HUB Investigation Report was marked in the Hearing as an exhibit for identification purposes only.

[35] None of JJ, Cheryl Hamilton, LG, or TG, testified at the Hearing in CIRO's presentation of its case. There was no client complaint against Scott.

[36] Following the conclusion of CIRO's case, Scott elected not to testify or call evidence in reply.

ANALYSIS

Legislation, Rules and Policy

[37] On January 1, 2023, the Investment Industry Regulatory Organization of Canada (**IIROC**) and the MFDA were consolidated into a single self-regulatory organization recognized under applicable securities legislation that is called CIRO. CIRO adopted interim rules that incorporate the pre-amalgamation regulatory requirements contained in the rules and policies of IIROC and the by-law, rules and policies of the MFDA. These interim rules include: the Investment Dealer and Partially Consolidated Rules, the UMIR, and the MFD Rules.

[38] MFD Rule 2.1.4(2) states:

a. An Approved person must take the reasonable steps to identify existing material conflicts of interest, and material conflicts of interest that are reasonably foreseeable, between the Approved Person and the client.

b. If an Approved Person identifies a material conflict of interest under Rule 2.1.4(2)(a), the Approved Person must promptly report that conflict of interest to their Member.

c. An Approved Person must address all material conflicts of interest between the client and the Approved Person in the best interest of the client.

d. An Approved Person must avoid any material conflict of interest between a client and the Approved Person if the conflict is not, or cannot be, otherwise addressed in the best interest of the client.

e. An Approved Person must not engage in any trading or advising activity in connection with a material conflict of interest identified by the Approved Person under Rule 2.1.4(2)(a) unless

   i. the conflict has been addressed in the best interest of the client, and

   ii. the Approved Person's Member has given the Approved Person its consent to proceed with the activity.

[39] MFD Rule 2.1.1, under the heading Standard of Conduct, states – Each Member and each Approved

[30] Transcript Day 3, p 28
[31] Transcript Day 3, pp 31, 36, 37
[32] Transcript Day 3, p 37
[33] Transcript Day 3, p 38
[34] Transcript Day 3, pp 38, 39
[35] Transcript Day 3, p 40

Person of a Member shall:

a. deal fairly, honestly and in good faith with its clients;

b. observe high standards of ethics and conduct in the transaction of business;

c. not engage in any business conduct or practice which is unbecoming or detrimental to the public interest; and

d. be of such character and business repute and have such experience and training as is consistent with the standards described in this Rule 2.1.1, or as may be prescribed by the Corporation.

[40] MFD Rule 1.1.2, under the heading Compliance by Members and Approved Persons, obligates Members and APs to comply with bylaws, rules, and applicable securities legislation relating to, *inter alia*, standards of practice and business conduct.

[41] As a Member Dealer, HUB had a Policies & Procedures Manual during the relevant period that dealt with, among other things, conflicts of interest.

[42] Section 2.1.4 of the HUB Manual obligated an AP to immediately disclose to HUB compliance a conflict or potential conflict of interest. If a conflict of interest arose, the AP and HUB would ensure that it is addressed by the exercise of responsible business judgment influenced only by the best interests of the client. A conflict of interest was defined in the HUB Manual as "a situation where someone in a position of trust has professional or personal interests which compete or conflict with those of the interests of the client". Having "a conflict of interest is not, in and of itself, evidence of wrongdoing" – a conflict may exist even if there are no improper acts as a result of it. The best interest of the client must always be the first consideration.

[43] The HUB Manual described a number of situations that could create potential conflicts of interest. One such situation, in section 2.1.4(e), stated "Borrowing from or lending to a client is absolutely prohibited and is grounds for dismissal".

[44] Section 2.1.5(a), under the heading Borrowing from Clients, stated "Borrowing from a client by... an AP raises a significant and direct conflict that in almost all cases will be impossible to resolve in favour of the client. Borrowing from clients is prohibited by HUB... and may be grounds for dismissal". Lastly, under section 2.1.5(b), under the heading Lending to Clients, the HUB Manual read "APs are prohibited from directly or indirectly entering into arrangements that involve lending to clients".

Burden of Proof/Evidence

[45] CIRO bears the burden of proof on a balance of probabilities in an administrative proceeding such as this – whether it is more likely than not that each of the allegations of breach or misconduct made by Staff in its Statement of Allegations has been established. The evidence necessary to satisfy this test must be "sufficiently clear, cogent, and convincing".[36] If the Hearing Panel is not satisfied that an allegation has been proven to this standard, we, as a Hearing Panel, are required to dismiss it.

[46] Pursuant to the MFD Rules, in section 1.6(1), the Hearing Panel may admit as evidence any testimony, document or other thing, including hearsay, which it considers to be relevant to the allegations. It is not bound by the technical or legal rules of evidence.

Contravention 1 – Borrowing from Clients

CIRO Submissions

[47] Staff claimed that Scott did not report to or seek approval from HUB for the $2 million RSFC borrowed from clients LG and TG on October 1, 2021. Staff noted Scott did not deny the borrowing took place, rather that he believed LG and TG were no longer his clients due to the JJ Sale. This was incorrect, Staff argued, relying on what it said was undisputed documentary evidence showing that Scott received 70% of the trailer fees for investments made on behalf of LG and TG during the relevant period, as well as RS0206.

[48] Staff contended that an AP must take reasonable steps to identify existing material conflicts of interest

[36] *Re Maurice,* 2022 IIROC 18, at para 5; *F.H. v. McDougall*, [2008] SCJ No. 54 at para 43

and conflicts that are reasonably foreseeable. Conflicts must also be reported to the Dealer Member and addressed in the best interests of the client. Staff argued that the subrules of MFD Rule 2.1.4(2) are independent, and that non-compliance with any one of them constitutes a violation of the Rule. Reliance was also placed on MFDA Staff Notice #MSN-0047, which states that borrowing from a client raises a significant and direct conflict that in almost all cases will be impossible to resolve in favour of the client.

[49] It is not necessary, however, for the Hearing Panel to find that LG and TG were clients of Scott, according to Staff – the conflict of interest inherent in borrowing from clients extends to clients of the Dealer Member at which the AP is registered. Staff asserts there is no question, on the evidence, that LG and TG were clients of HUB at the time of the Notes Sale by RSFC in October 2021, and thereafter.

[50] Once MFD Rule 2.1.4(2) is breached, Staff argued, related Rules come into play. MFD Rule 1.1.2 requires each AP to comply with the by-laws and Rules as they relate to the Dealer Member or AP. Staff claimed that Rule 1.1.2 should be read in conjunction with Rule 2.5.1, which mandates that Dealer Members establish, implement, and maintain policies and procedures to ensure its business is handled in accordance with the by-laws and Rules. MFD Rule 2.1.1 is also applicable, according to Staff, as the failure to comply with the above Rules is contrary to the requirement that AP's: deal fairly, honestly, and in good faith with clients, observe high standards of ethics and conduct in the transaction of business, and refrain from engaging in any business conduct or practice which is unbecoming or detrimental to the public interest.

[51] In summary, Staff argued that Scott did not disclose to HUB the borrowing from clients LG and TG, in breach of MFD Rule 2.1.4(2), and in so doing contravened the related compliance and good faith Rules found in 2.1.1 and 1.1.2 (as it relates to Rule 2.5.1).

Scott Submissions

[52] Scott argued CIRO failed to call any evidence to show that LG and TG were his clients at the relevant time. CIRO did not call as witnesses LG, TG, or JJ, and according to Scott the only witness who was called by Staff to speak to this allegation at the Hearing had no direct or personal knowledge of the facts.

[53] Scott claimed that witness, Mr. Bergeron, assisted his defence through his acceptance of certain conclusions in HUB's Investigation Report, including:

- JJ 'did it all' with respect to the joint code by meetings with clients, doing updates, etc., and that it was her client call, not Scott's
- Scott had not been involved in any conversations with clients under the joint code
- Scott was not active in servicing the mutual fund accounts after the sale to JJ
- Scott was not actively engaged in the sale or ongoing management of the mutual fund business sold to JJ, including the investment activity for RS0206 on which JJ was the advisor signing the KYC and trade documentation
- Scott only remained an advisor on the joint code to facilitate JJ's purchase of the business, as she did not have the financial resources for alternate funding.

[54] Scott asserted the conflict disclosure obligations in Rule 2.1.4(2) are all or none – CIRO must establish that each of sub-rules (a) through (e) are satisfied in order to support a finding of breach. He argued there was no evidence before us to support the requisite finding that Scott had serviced the clients after the JJ Sale, or that he had engaged with clients in trading or advising activity. He also argued that if an AP has an obligation to report any borrowing as soon as a person becomes a client, the corollary must also be true – once a person ceases to be a client there is no longer an obligation. In his view, LG and TG ceased to be his clients in July 2021, months before the October 2021 LG Notes Sale.

[55] Lastly, Scott claimed that because CIRO's guidelines expressly acknowledge borrowing from a client is not explicitly prohibited under the Rules, CIRO must establish that borrowing the funds had the effect of creating a conflict of interest in order to establish a breach of Rule 2.1.4(2). This CIRO did not do, in his submission.

Panel Analysis

[56] There is no dispute that Scott engaged in the Notes Sale to LG and TG in October 2021 while acting as an AP with Member Dealer HUB. There is similarly no dispute that Scott did not report that transaction to HUB. When asked in his interview by CIRO whether he had disclosed the Notes Sale to HUB, he replied. "To be honest with you, I didn't, probably, because I didn't think it was any of their business". Scott's letter to HUB, dated June 1, 2023, was unequivocal – "I did not report this financial transaction to HUB Capital simply because [redacted] were not my mutual fund clients".[37]

[57] The lack of disclosure is not dispositive of the issue, however, as there remains a contest regarding whether LG and TG were clients of Scott at the relevant time, or, as CIRO has asserted, whether that makes any difference so long as they were clients of HUB.

[58] Based on all the evidence, we have concluded on a balance of probabilities that LG and TG were not clients of Scott at the time of the Notes Sale but were clients of HUB. We have also concluded that Rule 2.1.4(2) applies generally to clients of Member Dealers, and not just clients of the AP. We will address each of these findings in turn.

LG and TG Were Not Clients of Scott in October 2021

[59] LG and TG were part of the business sale to JJ. All of Scott's mutual fund clients were transferred to a joint code with her, effective July 1, 2021, and were moved by HUB to that code on July 6, 2021. From that point onward, other than receipt of trailer fees (discussed below), there is no persuasive evidence Scott had any role to play in the handling, advice, or servicing of those clients, including LG and TG.

[60] The best evidence with respect to who was responsible for and servicing those clients following the JJ Sale came from two sources: the HUB Investigation Report and Scott's CIRO interview. None of JJ, LG, TG, or Cheryl Hamilton testified at the Hearing, nor, as Scott claimed, did any other client or witness with first-hand knowledge of the facts.

[61] The HUB Investigation Report was not marked as a full exhibit in the Hearing, only as an exhibit for identification. Evidentially, this prevented us from considering the entirety of the document for the truth of its contents. Portions of that report, however, were read to Mr. Bergeron in cross examination and confirmed by him as according with his information. That information was helpful in assisting us in determining who was handling the Scott clients after the JJ Sale.

[62] According to HUB's investigation, JJ "did it all" with respect to the joint code with Scott – meeting with clients, doing updates, etc., and claiming that it was her client call, not Scott's. Scott was not active in servicing the clients after the JJ Sale, nor was he actively engaged in the sale or ongoing management of the mutual fund business (including the investment activity for RS0206 – on which JJ was the advisor). Scott was not involved in any conversations with clients under the joint code. This latter statement was corroborated by Scott's CIRO interview testimony, "I would get a phone call from the client, I said no, she's looking after your – this block of business. So refer to her." Lastly, Scott only remained on the joint code to facilitate JJ's purchase of his business, as she did not have the financial resources. This last point is particularly important when it comes to the import of the trailer fees.

[63] The fact there was a client transition period referenced in the JJ Sale did not, in all the circumstances, persuade us that Scott continued to service those clients in any fashion. Firstly, and as stated above, JJ "did it all", she viewed the client calls as hers to make. Secondly, it does not appear from the evidence that the transition meetings occurred. Scott stated they did not happen, because JJ never set them up. This is consistent both with her representation they were her clients and she was doing all the work, and with Scott's belief they were no longer his. Thirdly, the seeming purpose of the transition meetings was to ensure the clients continued with JJ after the sale, not to ensure Scott was actively servicing them. This was consistent with the financial adjustment term in the JJ Sale dealing with "account loss" after 3 years.

[64] CIRO's contention that LG and TG continued to be clients of Scott through to and after the Notes Sale is largely based on his receipt of trailer fees relating to the joint code (including fees associated with the mutual fund purchases in the RS0206 account with HUB). These facts are, as CIRO claimed, undisputed. What is

[37] Exhibit 21

missing from these facts, however, is context.

[65] The trailing fees were not additional compensation paid to Scott over time following the sale of his book to JJ, but rather accounting offsets to the initial purchase price. He allowed JJ to pay for his book of business with the trailers, as she did not have the funds to do so, or access to alternative financing. He characterized this as his "big mistake", in that the trailer fees were actually her money, but paid to him by HUB. In numerical terms, the sale price was $48,000, and the 70% in trailing fees he received were to offset that debt. The only way to effect that payment plan, and for HUB to pay Scott via fees, was to do so through a joint code. That was why Scott was on the joint code, as the HUB Investigation Report established.

[66] The business efficacy of this plan is not for the Hearing Panel to judge, what it does is provide an explanation for the receipt by Scott of trailing fees for mutual fund transactions months after he sold his book. Notably, although not of itself determinative, he received only $1,897 in these fees over an approximate two-year period.

[67] For these reasons, we have concluded that LG and TG were no longer clients of Scott at the time of the Notes Sale in October 2021. We are by no means making a general industry statement, that every mutual fund business sale results in an immediate cessation of the selling AP's obligations to the clients, or to his or her Member Dealer, or to compliance with applicable MFD Rules and statutory obligations. Our conclusion is based on the evidence before us and the very particular facts of this case.

LG and TG Were Clients of HUB in October 2021

[68] There is no dispute on the evidence that LG and TG, long-time friends of Scott, became clients of HUB in November 2019, and were serviced by him until July 1, 2021. Similarly, there is no dispute that they remained clients of HUB thereafter until approximately June 2023, more than 1.5 years after the alleged failure by Scott to disclose a conflict due to the LG Notes Sale.

MFD Rule 2.1.4(2) Applies to Clients of the Member

[69] There is very little compelling authority on point with respect to whether the conflict of interest disclosure obligations in MFD Rule 2.1.4(2) apply generally to clients of the Member Dealer.

[70] The Rule itself does not distinguish in its language between Member Dealer clients and AP clients. This leads us to conclude the drafting was intentional, and that the Rule was designed to apply generally to both Member Dealer and AP clients. Had there been an intention to make a distinction, it would have been a simple matter to say "their" client in 2.1.4(2)(a), (c), and (d), instead of how it is written, "the" client (Scott's Bench Brief and written argument both mistakenly summarized MFD Rule 2.1.4(2)(a) as referring to "their" client).

[71] This conclusion is supported by the recent decision of *Re Chau*.[38] While *Re Chau* was an uncontested hearing (the Respondent neither filed a reply nor attended the merits hearing), its guidance was the most helpful of the several authorities referred to us by counsel.

[72] Mr. Chau was an AP, with 20+ years of registration and experience. He was also the President and controlling shareholder of a Member Dealer. It was alleged by CIRO that he persuaded a client "of his firm" to lend $250,000 to a third party in furtherance of his own interest. The client had met Mr. Chau when she and her husband met with their advisors to open the accounts.

[73] The Chau panel, after detailing the good faith standards in MFD Rule 2.1.1, the conflicts disclosure obligations in MFD Rule 2.1.4, and the application of those rules with respect to personal financial dealings explained in MSN Staff Notice, concluded:

> "Although the approved person is usually the client's advisor, this need not be the case. Any approved person who deals with a client of his or her firm is subject to these rules. This is clear in Rule 2.1.1, which refers to dealing with the member's clients, and in the structure of Rule 2.1.4, which requires an approved person to address a conflict first with the member and to make disclosure to "the client" as the member directs." (emphasis added)[39]

[38] *Re Chau* 2024 CIRO 78
[39] *Ibid*, para 60

[74] Scott argued that some level of servicing, trading, or advising by the AP to the client involved with the lending or borrowing was a prerequisite to the application of MFD Rule 2.1.4(2). We were not persuaded by this argument. The phrase "trading or advising activity" appears only in 2.1.4(2)(e) and prohibits the AP from engaging in those activities in connection with a material conflict of interest already identified pursuant to 2.1.4(2)(a). Trading or advising are then only permitted if the identified conflict has been addressed in the best interests of the client and the Member Dealer has given its consent to the AP to so act.

[75] Based on a plain reading of MFD Rule 2.1.4(2), we view the obligations set out therein as distinct from one another and forming a progression of steps intended to reveal and manage conflicts of interest.

[76] In sub-rule 2.1.4(2)(a), existing and foreseeable material conflicts of interest between the AP and the client must be identified. That is the primary obligation, upon which the remainder of the sub-rules complement. In sub-rule (b), a conflict once identified must be reported to the Member Dealer. In sub-rule (c), that conflict must be addressed in the best interest of the client. In sub-rule (d), that conflict must be avoided if it is not, or cannot be, addressed in the best interest of the client. Lastly, in sub-rule (e), the AP must not engage in any trading or advising for the client if that conflict has not been addressed in the best interest of the client and the Member Dealer has given its consent. This last sub-rule is a preventive measure, to ensure the conflict does not impact or influence the trading or advising by the AP in the client account.

[77] Applying our finding that MFD Rule 2.1.4(2) applies to clients generally, and not just clients of the AP, Scott breached the Rule by failing to disclose the LG Notes Sale to HUB. In so doing, Scott was not compliant with MFD Rule 1.1.2 – read in conjunction with Rule 2.5.1 – requiring APs to comply with rules relating to standards of conduct and business practices.

[78] We did not find, on a balance of probabilities, that Scott was in breach of MFD Rule 2.1.1 relating to good faith and standards of conduct. There was no clear, cogent, and convincing evidence that Scott did not deal fairly, honestly, and in good faith with his clients. No client testified, and no client complaints were received. Scott held a genuine belief – there is no evidence to the contrary of his state of mind – that he was not obliged to disclose the LG Notes Sale to HUB as he had sold his mutual fund book to JJ months before. The trailer fees he received were not for ongoing service to the clients, but rather a form of payment over time for that transaction. There is similarly no evidence of him engaging in any practice which was unbecoming or detrimental to the public interest. The failure to report the LG Notes Sale in all the circumstances of this case does not, of itself, elevate his conduct to the level represented in this Rule.

Contravention 2 – Failing to Disclose Outside Activity

CIRO Submissions

[79] Staff argued that no records exist to support Scott's assertion he was permitted to lend money, borrow money from clients, and invest that borrowed money. The only approval Scott sought and obtained from HUB was for RSFC to offer insurance products, and for RS0206 to operate a horse business, neither of which applied to the borrowing that was made from LG and TG. Further, there was no evidence led to show the LG Notes Sale was a complement to the approved insurance outside activity.

[80] The onus was on Scott, Staff asserted, to seek and obtain the required approval from IPC and HUB of all outside activities.[40] Having that obligation, the onus was similarly on him in the Hearing to prove he had done so. In this, Staff stated, Scott failed.

Scott Submissions

[81] Scott claimed CIRO adduced no evidence that he failed to disclose the activity in question, rather that its case rests entirely on an absence of evidence – effectively wrongly shifting the burden of proof to Scott. Both RSFC and RS0206 were disclosed to and acknowledged by HUB, and outside activity approvals reviewed and approved. He stated that the summary descriptions of the approved activities on the forms in evidence were not written by him, but rather a Vanessa Hillius (who, along with others, did not testify at the Hearing).

[82] Scott referred to investigative gaps by CIRO that were significant to determining this issue. None of Ms.

[40] *Re Majdoub*, 2010 MFDA 201010 at para 7 [Tab 18 CIRO Authorities]; *Re Tewahade*, 2016 MFDA 201425, at para 75 [CIRO Authorities Tab 19]

Handsaeme or any investigator at CIRO made inquiries of IPC, the Dealer Member to whom Scott was registered at the time of the 2015 Agreement. This was particularly concerning as Scott expressly stated in the HUB Approval Form that he "disclosed [his outside activities related to RSFC] with current dealer (IPC)". Scott also was not asked in his investigation interview what he understood his disclosure of RSFC and RS0206 to mean, whether those disclosures encompassed insurance related lending activities, or whether he had specifically disclosed to IPC the 2015 Agreement or the Notes.

[83] Furthermore, according to Scott, the evidence in the Hearing did not establish that the disclosed scope of RSFC's activities was as limited as CIRO has asserted.

[84] Lastly, and in any event, Scott argued he did not engage in "lending activities", but rather one lending activity which began in 2015 and was related to the sale of four life insurance policies. The 2015 Agreement and circumstances tracked through the various agreements over time leading up to and including the sale of the Notes to LG and TG in October 2021. That LG Notes deal, according to Scott, was initiated not by himself but by GM, a licensed insurance agent of HUB at the time, and Scott was to get a commission percentage. It was an investment. Scott asserted this is consistent with the 2015 Agreement being a component of RSFC's insurance operations rather than a separate, undisclosed activity.

Panel Analysis

[85] On all the evidence, we have concluded on a balance of probabilities that Staff did not prove this allegation, and it is therefore dismissed.

[86] Staff argued, and we agree, that it is the responsibility of the AP to seek and obtain approval for outside business activities.[41] We agree with Scott, as well, that the existence of this obligation in the AP and Member Dealer relationship does not alter the evidential burden of proof respecting an alleged breach in a hearing such as this. Staff has the onus of proving its allegation that there was no or sufficient disclosure on a balance of probabilities. The burden does not lie with or shift to Scott to disprove Staff's claim there was no compliance.

[87] The evidence establishes a reasonable picture of the disclosure made by Scott to IPC and HUB. We know that Scott disclosed to HUB on its Outside Activity Approval form the existence of RSFC, its business (insurance), its function (offers insurance products and services to clients), and the fact he intended to be involved in the activity for a long period and that he was receiving compensation. We know from his disclosure that there would be a link between RSFC's clientele and the clients he had as a mutual fund representative. With respect to IPC, he explained that the activity had been "Disclosed with current dealer (IPC)". RSFC was disclosed once again in HUB's Due Diligence Report and Summary.

[88] As framed, Staff alleged that the unapproved outside activity of which it is critical began in 2015. In that first transaction, RSFC received funds for the placement of four large insurance policies, and then lent those funds back to Company 1. In other words, as a result of insurance products offered and sold to an insurance client – in a business disclosed to IPC and approved to do to – RSFC was compensated for its efforts. It then chose to contribute the fees it had earned back to the client in exchange for a debt instrument and the promise of interest. This was an investment by RSFC directly attributable to the provision of insurance products and services to a client (echoing the disclosure language of Scott).

[89] Establishing the origin and nature of the funds is key, as we see the monies leading up to and including the LG Sale as part of one long transaction, involving many of the same or similar parties. In our view, this was not a business, or lending activities (plural), it was an initial insurance related transaction that morphed over time into different lending instruments and investments. The addition of LG and TG to the narrative, months after Scott had sold his mutual fund practice, does not change the source of funds (insurance business) or the fundamental essence of the transactions (investment of insurance fees earned).

[90] For these reasons, we do not find that the series of transactions from the 2015 Agreement to the resignation of Scott in July 2023 an outside activity, necessitating approval from either IPC or HUB.

CONCLUSION

[41] *Ibid, Tewahade (Re)*, para 75

[91] We have carefully considered the *viva voce* and documentary evidence before us in this case, along with oral and written submissions from both parties. In so doing, we were mindful of the reliance limits placed upon us with respect to the manner in which certain documents were entered – in some cases merely sent and received, in others truth of its contents. In the end result, we relied on admissible evidence that was sufficiently clear, cogent, and convincing in arriving at our conclusions.

[92] In summary, we found in respect of Contravention 1 that Scott acted contrary to MFD Rules 2.1.4(2) and 1.1.2 (as it relates to 2.5.1), by borrowing monies from clients of HUB and thereby giving rise to a material conflict of interest that he failed to identify, report to HUB, or to address in the best interest of the clients. We dismissed the allegation relating to Rule 2.1.1.

[93] With respect to Contravention 2, we dismissed the allegation that Scott had engaged in an unapproved outside activity from April 2, 2015, to July 10, 2023, contrary to MFD Rule 1.2.1(c).

[94] The Hearing Panel directs that CIRO schedule a penalty hearing in this matter.

DATED at the City of Calgary, in the Province of Alberta, this 20th day of May, 2026.

"Don Young"

Don Young, KC Chair

"Martin Davies"

Martin Davies

"Jim Ross"

Jim Ross