



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

**IN THE MATTER OF A DISCIPLINARY HEARING  
PURSUANT TO SECTIONS 20 AND 24 OF BY-LAW NO. 1 OF  
THE MUTUAL FUND DEALERS ASSOCIATION OF CANADA**

**Re: Zahir Hussain Lehri**

---

**NOTICE OF HEARING**

---

**NOTICE** is hereby given that a first appearance will take place by teleconference before a hearing panel of the Central Regional Council (“Hearing Panel”) of the Mutual Fund Dealers Association of Canada (“MFDA”) on December 13, 2022 at 10:00 a.m. (Eastern), or as soon thereafter as the appearance can be held, concerning a disciplinary proceeding commenced by the MFDA against Zahir Hussain Lehri (the “Respondent”). Members of the public who would like to listen to the teleconference should contact [hearings@mfd.ca](mailto:hearings@mfd.ca) to obtain particulars.

**DATED** this 13<sup>th</sup> day of October, 2022.

“Michelle Pong”

---

Michelle Pong  
Director, Regional Councils

Mutual Fund Dealers Association of Canada  
121 King Street West, Suite 1000  
Toronto, ON M5H 3T9  
Telephone: 416-945-5134  
Email: [corporatesecretary@mfd.ca](mailto:corporatesecretary@mfd.ca)

**NOTICE** is further given that the MFDA alleges the following violations of the By-laws, Rules or Policies of the MFDA:

**Allegation #1:** Between May 2015 and August 2018, the Respondent allowed an Approved Person who was not registered with the Member to:

- i. open new accounts at the Member for clients;
- ii. complete and submit for processing Know-Your-Client forms;
- iii. implement a leveraging strategy for these clients using false or inaccurate client financial documentation; and
- iv. process trades in the accounts of these clients using the Respondent's representative code;

thereby:

- a) facilitating stealth advising by the other Approved Person, contrary to MFDA Rules 1.1.1<sup>1</sup> and 2.1.1; or
- b) failing to use due diligence to learn the essential facts relative to the clients and to ensure that the leveraging strategy and investments that were recommended and implemented for clients were suitable, contrary to MFDA Rules 2.2.1<sup>2</sup> and 2.1.1.

**Allegation #2:** Commencing May 2017, the Respondent misappropriated or failed to account for monies received from a client and another individual, contrary to MFDA Rule 2.1.1.

**Allegation #3:** Commencing October 2020, the Respondent failed to cooperate with an investigation into his conduct by Staff of the MFDA, contrary to section 22.1 of MFDA By-law No. 1.

### **PARTICULARS**

**NOTICE** is further given that the following is a summary of the facts alleged and intended to be relied upon by the MFDA at the hearing:

---

<sup>1</sup> Effective January 21, 2021, MFDA Rule 1.1.1 was amended. As the Respondent engaged in the alleged misconduct addressed in this proceeding prior to January 21, 2021, in this proceeding, Staff is relying on the version of MFDA Rule 1.1.1 that was in effect prior to the January 21, 2021 amendments.

<sup>2</sup> Effective December 31, 2021, MFDA Rule 2.2.1 was amended. As the Respondent engaged in the alleged misconduct addressed in this proceeding prior to December 31, 2021, in this proceeding, Staff is relying on the version of MFDA Rule 2.2.1 that was in effect prior to the December 31, 2021 amendments.

## **Registration History**

1. Commencing May 9, 2007, the Respondent was registered in the securities industry.
2. From July 24, 2014 to January 16, 2019, the Respondent was registered in Ontario as a dealing representative with Shah Financial Planning Inc. (“Shah Financial”), a Member of the MFDA.
3. On January 16, 2019, the Respondent resigned from Shah Financial, and he is not currently registered in the securities industry in any capacity.
4. At all material times, the Respondent conducted business in the Brampton, Ontario area.

## **Allegation #1 - Facilitating Stealth Advising and Failing to Fulfill KYC Obligations**

5. At all material times, clients SD, RS, KH, and AK were clients of Shah Financial. As further described below, while the Respondent signed all account forms to open accounts and process transactions in their accounts at Shah Financial, these clients only received investment advice and signed account documents provided to them by Muhamad Asghar Sadiq (“Sadiq”),<sup>3</sup> who was registered as a dealing representative with Sterling Mutuals Inc. (“Sterling Mutuals”), a Member of the MFDA.<sup>4</sup>
6. Between May 2015 and June 2015, during which time Sadiq was not registered with Shah Financial, the Respondent facilitated the opening of new accounts for the 4 clients at Shah Financial and implemented a leveraged investment strategy involving the borrowing of money to invest in return of capital mutual funds (“ROC Funds”) (collectively, the “Leveraged Investment Strategy”).
7. The Respondent either met the clients briefly or not at all. Instead, it was Sadiq who met with the clients, recommended the Leveraged Investment Strategy, and had the clients sign the required account forms.<sup>5</sup> Sadiq represented to each of the clients that the Respondent was his

---

<sup>3</sup> Muhamad Asghar Sadiq is a respondent to another MFDA proceeding, MFDA File No. 202152.

<sup>4</sup> Sadiq was registered with Sterling Mutuals between February 24, 2010 to January 4, 2019, which overlaps the period, September 24, 2009 to July 23, 2012, during which time the Respondent was registered with Sterling Mutuals.

<sup>5</sup> Clients RS, KH, and AK had pre-existing accounts with Sterling Mutuals, which were serviced by Sadiq. Client SD and his spouse, SDD, decided together to invest with Sadiq. At Sadiq’s direction, SDD opened an account at Sterling Mutuals, while client SD opened an account at Shah Financial.

business partner, and falsely stated that the accounts had to be opened at Shah Financial and the Respondent's name was required to be on their account forms.

8. The Respondent did not:

- a) use due diligence to learn the essential facts relative to each of the clients, such as the clients' income and net worth, to ensure that the Leveraged Investment Strategy that was implemented for the clients was suitable for each of them;
- b) explain to the clients the features and risks of the Leveraged Investment Strategy and underlying ROC Funds being purchased in the clients' accounts;
- c) provide the advice necessary for the clients to make an informed decision about the Leveraged Investment Strategy; or
- d) receive the instructions from the clients necessary to authorize the transactions that were processed in their accounts.

9. The Respondent signed as the Approved Person of record on each of the required account opening documents, net worth statements, and loan applications (collectively, the "Leveraged Account Documents") that were necessary to implement the Leveraged Investment Strategy in the clients' accounts. As described above, it was Sadiq who met with the clients to have them execute the Leveraged Account Documents and not the Respondent.

10. Each of the clients applied for and obtained investment loans, the proceeds from which were invested in ROC Funds, as follows:

<b>Client</b>	<b>Loan Amount</b>	<b>Date of Loan Application</b>
SD	\$200,000	May 28, 2015
RS	\$200,000	June 8, 2015
KH	\$200,000	June 15, 2015
AK	\$200,000	June 22, 2015

11. Each of the Leveraged Account Documents signed by the Respondent as the Approved Person of record contained inaccurate KYC information that made it appear as though the Leveraged Investment Strategy was suitable for the clients. These Leveraged Account Documents recorded the clients' investment knowledge as moderate, when their investment knowledge was limited or none, recorded their risk tolerance as medium to high, when their risk tolerance was substantially lower, and significantly overstated their annual income and net worth.

12. In addition, the Respondent submitted supporting financial documents in respect of the clients that contained false, incorrect, or misleading information. These documents included T4 and other pay statements, property tax statements, investment statements, and bank statements. These documents either overstated the clients' income or the value of the clients' assets or purported to show assets that the clients did not actually own.

13. The Leveraged Account Documents, which contained inaccurate KYC information, and the false supporting financial documents increased the likelihood that the lending institutions would approve the clients' investment loans or that Shah Financial would approve the implementation of the Leveraged Investment Strategy in the clients' accounts.

14. In addition to the Leveraged Account Documents, from July 2015 to May 2016, the Respondent also signed as the Approved Person of record on additional account opening documents in connection with non-leveraged accounts and KYC update forms for the 4 clients. As described above in paragraph 7, the Respondent did not meet or speak with the clients about the KYC information that was recorded for the non-leveraged accounts or explain the products that were purchased in those accounts on the clients' behalf. Instead, it was Sadiq who made the recommendations to the clients and had the clients sign the required account forms. In each case, the account forms continued to inaccurately represent the clients' investment knowledge, risk tolerance, annual income, and net worth.

15. Sadiq was not an Approved Person registered with Shah Financial and was therefore not permitted to engage in securities related business with respect to the accounts that the clients held at Shah Financial.

16. The Respondent knew or ought to have known that an individual who was not registered with Shah Financial was providing investment advice to the clients and having them execute the requisite Shah Financial account forms. The Respondent facilitated the processing of account forms and transactions and the implementation of the Leveraged Investment Strategy for each client by signing the account forms and submitting the necessary paperwork, which made it appear as though he was servicing the accounts of the clients.

17. Shah Financial was not aware that the Respondent was facilitating the processing of transactions on behalf of clients on the basis of recommendations made and instructions received by an individual who was not registered with Shah Financial.

*Failed to Use Due Diligence to Ensure that the Leveraged Investment Strategy was Suitable for the Clients*

18. At all material times, Shah Financial’s policies and procedures identified the following “red-flags” as indicating that a leveraging strategy may not be suitable:

- a) client’s investment knowledge is “none”, “limited”, “low”, or “poor”;
- b) client does not have at least a “medium” risk tolerance;
- c) client’s total debt service ratio (“TDSR”) exceeds 35%; and
- d) client’s loan to net worth ratio (“LNWR”) exceeds 30%.

19. While the annual income and net worth that was recorded for the clients made it appear that they had sufficient resources to engage in leveraged investing, the clients’ actual annual income and net worth resulted in the following TDSRs and LNWRs:

<b>Client</b>	<b>Loan</b>	<b>TDSR</b>	<b>LNWR</b>
SD	\$200,000	61%	164%
RS	\$200,000	62%	145%
KH	\$200,000	122%	118%
AK	\$200,000	216%	118%

20. The Respondent knew or ought to have known that the investment loans were excessive having regard to the resulting debt servicing obligations that would be imposed on the clients and the potential for the clients’ obligations to repay the investment loans to erode a substantial portion, or potentially all, of the clients’ net worth in the event that the strategy was not successful.

21. All 4 clients who implemented the Leveraged Investment Strategy relied entirely upon the distributions generated by the ROC Funds to pay all of the costs of servicing their investment loans. Many, if not all, of the clients did not have the means to cover the costs of servicing the investment loans in the event that the Leveraged Investment Strategy itself failed to provide returns sufficient to cover the loan payments.

22. All of the clients had limited or no investment knowledge, such that they did not understand or appreciate the potential risks of the Leveraged Investment Strategy when they agreed to implement it in their accounts. In addition, all of the clients had low investment risk tolerances, such that the Leveraged Investment Strategy generally exceeded the level of risk that the clients were willing and (having regard to their actual net worth and income) able to assume.

23. Beginning mid-2016, the value of the ROC Funds declined in value to the point that all 4 clients were required to invest in different ROC Funds that provided a smaller distribution. As a result of the reduction in the distribution, each of the clients experienced a shortfall with respect to the required loan payments, which the clients paid by: (a) using surplus amounts saved from the ROC Fund distributions; (b) redeeming the investments made in the non-leveraged accounts described in paragraph 14; (c) using other sources of income or savings; or (d) taking on additional debt from another source.

24. Between 2018 and 2020, after determining that they could no longer afford the loan payments, the clients redeemed their mutual funds (both the ROC Funds that were purchased as part of the Leveraged Investment Strategy and amounts retained in the non-leveraged accounts described in paragraph 14)<sup>6</sup> and directed the proceeds to pay down the balance of their loans. In all cases the proceeds were insufficient to repay the loans in full, resulting in each of the clients having to pay the remaining balance out of pocket.

25. The clients described above experienced financial losses as a result of the Leveraged Investment Strategy.

26. The Respondent earned at least \$34,719 in commissions by facilitating the above described leveraged investments.

27. On the basis of the foregoing, the Respondent facilitated stealth advising by Sadiq at Shah Financial when Sadiq was not registered with Shah Financial, and the Respondent failed to use due diligence to learn the essential facts relative to the clients and to ensure that the leveraging strategy and investments that were recommended to the clients were suitable, contrary to MFDA Rules 1.1.1, 2.2.1, and 2.1.1.

### **Allegation #2 – Misappropriated or Failed to Account for Client Monies**

28. On or about May 11, 2017, client SD, and his spouse Sterling client SDD,<sup>7</sup> transferred \$31,000 USD to the Respondent. The Respondent has not repaid or otherwise accounted for this money. As described below, client SD and Sterling client SDD paid the money to the Respondent at the direction of Sadiq.

---

<sup>6</sup> As described below in paragraph 30, one client redeemed his non-leveraged investments to fund an investment in Sadiq's trading business. The monies generated by the redemptions were paid to the Respondent.

<sup>7</sup> Sterling client SDD was a client of Sterling Mutuals, whose accounts were serviced by Sadiq.

29. Beginning in late 2016, as described above in paragraph 23, client SD began to experience a shortfall with respect to the distributions that he was receiving and applying towards payments due on his investment loans. Consequently, he was required to cover a portion of his loan payments from the sale of other investments or out of pocket. Sterling client SDD, who was a client of Sterling Mutuals whose accounts were serviced by Sadiq, had also engaged in the Leveraged Investment Strategy and was experiencing a similar shortfall such that the distributions from her investment was also insufficient to pay her required loan payments.

30. At around this time, Sadiq recommended to client SD and Sterling client SDD that they invest in what he described to them as a “trading business” that he was developing. Client SD and Sterling client SDD redeemed the mutual funds held in their non-leveraged accounts at Shah Financial and Sterling Mutuals to fund their investment in Sadiq’s “trading business”. Then, at Sadiq’s direction, they transferred \$31,000 USD to the Respondent, who Sadiq described as his partner in the “trading business”.

31. The Respondent knew or ought to have known that the \$31,000 USD that he received was from his client and was monies to which he was not entitled.

32. Client SD and Sterling client SDD did not receive any return on the monies that they transferred to the Respondent. Neither the Respondent nor Sadiq have repaid or otherwise accounted for the \$31,000 USD.

33. By virtue of the foregoing, the Respondent misappropriated or failed to account for at least \$31,000 USD that he received from a client and another individual, contrary to MFDA Rule 2.1.1.

### **Allegation #3 – Failure to Cooperate with Staff’s Investigation**

34. On January 16, 2019, the Respondent submitted a letter of resignation to the Member, stating that he was resigning to care for his ill relative in Pakistan.

35. On March 27, 2019, after receiving a complaint against the Respondent from a client, Staff commenced an investigation into the Respondent’s conduct.

36. On July 22 and August 17 and 21, 2020, Staff conducted an interview with the Respondent by videoconference. The Respondent informed Staff that he was still in Pakistan. During the interview, the Respondent undertook to provide various information and documents to Staff,



including notes and financial information related to meetings he claimed he had with the clients described above. As described in further detail below, the Respondent failed to do so.

37. On August 25, 2020, Staff sent an email to the Respondent listing the undertakings that had been provided by the Respondent during his interview with Staff. On September 6, 2020, the Respondent acknowledged receipt of Staff's email and agreed to provide the answers to his undertakings upon his return to Canada. He indicated that he expected be in Canada in December 2020.

38. On October 16, 2020, Staff received an email from the Respondent's email address stating that the Respondent had passed away. In response to an email from Staff asking for the date of death and a copy of the death certificate, Staff received a further email on October 17, 2020, in which the sender identified himself as the Respondent's cousin and stated that no death certificate was available. The sender further stated that he was closing the email account.

39. The representation that the Respondent had passed away was false. Following the report that Staff received about the Respondent's death, the Respondent returned to Canada, renewed his driver's license with an updated address, and continued to make social media postings.

40. The Respondent has not provided the additional information and documents that he undertook to provide at his interview.

41. As a result of the Respondent's failure to cooperate, Staff cannot determine the full nature and extent of the Respondent's conduct described above.

42. By virtue of the foregoing, the Respondent failed to cooperate with Staff's investigation, contrary to section 22.1 of MFDA By-law No. 1.

**NOTICE** is further given that the Respondent shall be entitled to appear and be heard and be represented by counsel or agent at the hearing and to make submissions, present evidence and call, examine and cross-examine witnesses.

**NOTICE** is further given that MFDA By-laws provide that if, in the opinion of the Hearing Panel, the Respondent:

- has failed to carry out any agreement with the MFDA;
- has failed to comply with or carry out the provisions of any federal or provincial statute relating to the business of the Member or of any regulation or policy made pursuant thereto;
- has failed to comply with the provisions of any By-law, Rule or Policy of the MFDA;
- has engaged in any business conduct or practice which such Regional Council in its discretion considers unbecoming or not in the public interest; or
- is otherwise not qualified whether by integrity, solvency, training or experience,

the Hearing Panel has the power to impose any one or more of the following penalties:

- a) a reprimand;
- b) a fine not exceeding the greater of:
  - (i) \$5,000,000.00 per offence; and
  - (ii) an amount equal to three times the profit obtained or loss avoided by such person as a result of committing the violation;
- c) suspension of the authority of the person to conduct securities related business for such specified period and upon such terms as the Hearing Panel may determine;
- d) revocation of the authority of such person to conduct securities related business;
- e) prohibition of the authority of the person to conduct securities related business in any capacity for any period of time; and
- f) such conditions of authority to conduct securities related business as may be considered appropriate by the Hearing Panel.

**NOTICE** is further given that the Hearing Panel may, in its discretion, require that the Respondent pay the whole or any portion of the costs of the proceedings before the Hearing Panel and any investigation relating thereto.

**NOTICE** is further given that the Respondent must **serve a Reply** on Enforcement Counsel and **file a Reply** with the Office of the Corporate Secretary within twenty days from the date of service of this Notice of Hearing.

A **Reply** shall be **served** upon Enforcement Counsel at:

Mutual Fund Dealers Association of Canada  
121 King Street West, Suite 1000  
Toronto, ON M5H 3T9  
Attention: Alan Melamud  
Email: [amelamud@mfd.ca](mailto:amelamud@mfd.ca)

A **Reply** shall be **filed** by:

- a) providing four copies of the **Reply** to the Office of the Corporate Secretary by personal delivery, mail or courier to:

The Mutual Fund Dealers Association of Canada  
121 King Street West, Suite 1000  
Toronto, ON M5H 3T9  
Attention: Office of the Corporate Secretary; or

- b) transmitting one electronic copy of the **Reply** to the Office of the Corporate Secretary by e-mail at [corporatesecretary@mfd.ca](mailto:corporatesecretary@mfd.ca).

A **Reply** may either:

- (i) specifically deny (with a summary of the facts alleged and intended to be relied upon by the Respondent, and the conclusions drawn by the Respondent based on the alleged facts) any or all of the facts alleged or the conclusions drawn by the MFDA in the Notice of Hearing; or
- (ii) admit the facts alleged and conclusions drawn by the MFDA in the Notice of Hearing and plead circumstances in mitigation of any penalty to be assessed.

**NOTICE** is further given that the Hearing Panel may accept as having been proven any facts alleged or conclusions drawn by the MFDA in the Notice of Hearing that are not specifically denied in the **Reply**.

**NOTICE** is further given that if the Respondent fails:

- a) to **serve** and **file** a **Reply**; or
- b) attend at the hearing specified in the Notice of Hearing, notwithstanding that a **Reply** may have been served,

the Hearing Panel may proceed with the hearing of the matter on the date and the time and place set out in the Notice of Hearing (or on any subsequent date, at any time and place), without any further notice to and in the absence of the Respondent, and the Hearing Panel may accept the facts alleged or the conclusions drawn by the MFDA in the Notice of Hearing as having been proven and may impose any of the penalties described in the By-laws.

**END.**

DM 897779