

**IN THE MATTER OF
THE MUTUAL FUND DEALER RULESⁱ
and
Lorne Stuart Allison**

NOTICE OF HEARING

NOTICE is hereby given that a disciplinary proceeding has been commenced by the Canadian Investment Regulatory Organization (“CIRO”) against Lorne Stuart Allison (the “Respondent”). The first appearance will take place electronically by videoconference before a hearing panel of the Pacific District Hearing Committee of CIRO (the “Hearing Panel”) on March 15, 2024, at 10:00 am (Pacific Time) or as soon thereafter as the hearing can be held. The Hearing on the Merits will take place at a time and venue to be announced. Members of the public who would like to attend the first appearance by videoconference as an observer should contact hearings@ciro.ca to obtain particulars.

DATED this 18th day of December 2023.

“Michelle Pong”

Michelle Pong
Director, District Hearing Committees,
Mutual Fund Dealer Division

Canadian Investment Regulatory Organization
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NOTICE is further given that CIRO alleges the following violations of the Mutual Fund Dealer Rules:

Allegation: Between September 2020 and February 2021, the Respondent engaged in securities related business that was not carried on for the account or through the facilities of the Dealer Member, contrary to the Dealer Member’s policies and procedures and Mutual Fund Dealer Rules 1.1.1, 2.1.1, 2.1.4 and 1.1.2 (as it relates to Rule 2.5.1) (formerly MFDA Rules 1.1.1, 2.1.1, 2.1.4, 1.1.2, and 2.5.1).¹

PARTICULARS

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

Registration History

1. Between October 2005 and February 22, 2021, the Respondent was registered in the securities industry.
2. Between January 2012 and February 2021, the Respondent was registered in British Columbia as a dealing representative with Royal Mutual Funds Inc., a Dealer Member of CIRO (the “Dealer Member”), formerly a Member of the MFDA.

¹ Staff alleges that, at the time of the misconduct, the Respondent contravened MFDA Rules 1.1.1, 2.1.4, 2.1.1, and 1.1.2 (as it relates to MFDA Rule 2.5.1), which are now incorporated into Mutual Fund Dealer Rules 1.1.1, 2.1.4, 2.1.1, 1.1.2, and 2.5.1 referred to in this proceeding. On January 21, 2021, amendments to MFDA Rule 1.1.1 came into effect; on June 30, 2021, amendments to MFDA Rule 2.1.4 came into effect; and on July 7, 2022, amendments to MFDA Rule 1.1.2 came into effect. As conduct addressed in this proceeding pre-dated the amendments to these Rules, the version of MFDA Rule 1.1.1 that was in effect between January 7, 2004 and January 21, 2021, the version of MFDA Rule 2.1.4 that was in effect between February 27, 2006 and June 30, 2021, and the version of MFDA Rule 1.1.2 that was in effect prior to July 7, 2022, are applicable to this proceeding.

3. On or about February 22, 2021, the Respondent resigned from the Dealer Member during the course of the Dealer Member's investigation into the Respondent's conduct described herein. The Respondent is not currently registered in the securities industry in any capacity.

4. At all material times, the Respondent carried on business in the Vancouver Island, British Columbia area.

Allegation – Securities Related Business Outside the Dealer Member

5. At all material times, the Dealer Member's policies and procedures prohibited its Approved Persons from, among other things, engaging in securities related business outside the Dealer Member, such as advising on securities other than mutual funds and Guaranteed Investment Certificates.

6. At all material times, the Respondent was only registered to advise or trade in mutual funds, and at no time was registered to trade or advise in equity securities, options, the foreign exchange market, or exchange-traded funds.

Clients JE, KE, and LC

7. At all material times, clients JE, KE, and LC were clients of the Dealer Member whose accounts were serviced by the Respondent.

8. Clients JE, KE, and LC ranged in age from 64 to 71 years old and were retired. The clients were vulnerable investors on account of their age.

9. Between around September 2020 and February 22, 2021, while the Respondent was registered as a dealing representative with the Dealer Member, the Respondent engaged in one or more of the following activities with clients JE, KE, and LC:

(a) recommending that they open online brokerage accounts at financial institutions outside the Dealer Member for the purpose of the Respondent executing trades in non-mutual fund securities on their behalf for a fee;

(b) assisting with or facilitating opening their online brokerage accounts;

- (c) assisting with or facilitating the deposit of their monies or transfer of their investments to their online brokerage accounts;
- (d) repeatedly accessing their online brokerage accounts:
 - i. by using user identification and account passwords he obtained from them;
 - ii. while meeting in person with them; or
 - iii. by using trading authorization that they provided to the Respondent;
- (e) executing trades in non-mutual fund securities in their online brokerage accounts; and
- (f) charging fees for executing trades in their online brokerage accounts.

10. In particular, the Respondent assisted clients JE, KE, and LC with opening online brokerage accounts, in which they deposited monies or transferred mutual fund investments as set out in the chart below:

	Client	Online Brokerage Account	Total Monies Deposited and/or Value of Investments Transferred into Account (approx.)
1.	JE	Registered retirement income fund ("RRIF") and margin account at Company #1	\$177,192
2.	JE	Tax-Free Savings Account ("TFSA") at Company #1	\$73,858
3.	KE	TFSA at Company #1	\$73,702
4.	KE	Registered retirement savings plan ("RRSP") account at Company #1	\$181,619
5.	JE and KE	Non-registered joint margin account at Company #1	\$826,916
6.	JE and KE	Non-registered joint margin account at Company #1	\$768,105
7.	JE and KE	Non-registered joint margin account at Company #2	\$500,000
8.	LC	Non-registered margin account at Company #2	\$334,999

	Client	Online Brokerage Account	Total Monies Deposited and/or Value of Investments Transferred into Account (approx.)
Total (approx.)			\$2,936,391

11. In respect of clients JE and KE, the clients redeemed their mutual fund holdings at the Dealer Member, and transferred the redemption proceeds to their online brokerage accounts at Company #1.

12. In respect of client LC, the Respondent facilitated the redemption of client LC's mutual fund holdings at the Dealer Member, and transferred the redemption proceeds to client LC's online brokerage account at Company #2.

13. As described above, the Respondent repeatedly accessed the online brokerage accounts of JE, KE, and LC and executed trades in their online brokerage accounts in non-mutual fund securities, including in equity securities, options trading, the foreign exchange market, and exchange-traded funds.

14. The Respondent charged clients JE, KE, and LC fees totaling at least \$18,798.

15. After the Respondent resigned from the Dealer Member on February 22, 2021, the Respondent continued to access online brokerage accounts of clients JE, KE, and LC, and execute trades in non-mutual fund securities in their online brokerage accounts for a fee.

16. In or around May 2021, after client LC complained about the Respondent's options trading, and instructed the Respondent to cease his trading activities, the Respondent redeemed the investments client LC held in his account at Company #2. Client LC incurred a loss of approximately \$9,149 on the trades executed by the Respondent in his account at Company #2. Client LC subsequently transferred the redemption proceeds into his personal bank account, and closed his account at Company #2.

Clients VL and RL

17. At all material times, clients VL and RL were clients of the Dealer Member whose accounts were serviced by the Respondent.

18. Clients VL and RL ranged in age from 79 to 82 years old and were retired. The clients were vulnerable investors on account of their age.

19. Between around October 2020 and February 22, 2021, while the Respondent was registered as a dealing representative with the Dealer Member, the Respondent engaged in one or more of the following activities with clients VL and RL:

(a) recommending that they open online brokerage accounts at financial institutions outside the Dealer Member for the purpose of the Respondent executing trades in non-mutual fund securities on their behalf for a fee;

(b) assisting with or facilitating opening their online brokerage accounts; and

(c) assisting with or facilitating the deposit of their monies or transfer of their investments into their online brokerage accounts.

20. In particular, the Respondent assisted clients VL and RL with opening online brokerage accounts, in which the clients deposited monies or transferred mutual fund investments as set out in the chart below.

	Client	Online Brokerage Account	Total Monies Deposited and/or Value of Investments Transferred into Account (approx.)
1.	VL	TFSA at Company #1	\$82,438
2.	VL	RRIF account at Company #1	\$30,204
3.	VL and RL	Non-registered joint margin account at Company #1	\$786,838
4.	RL	TFSA at Company #1	\$81,566

	Client	Online Brokerage Account	Total Monies Deposited and/or Value of Investments Transferred into Account (approx.)
Total			\$981,046

21. The Respondent facilitated the transfer of client VL and RL’s mutual fund holdings and proceeds from the redemption of mutual fund investments from their accounts at the Dealer Member to their online brokerage accounts at Company #1 by completing forms and submitting them to Company #1 on behalf of the clients.

22. The Respondent sought to enter into an arrangement with clients VL and RL whereby the Respondent would execute trades in non-mutual fund securities on their behalf for fees, but the clients declined to enter into any arrangement with the Respondent.

Individual BL and Company A Ltd.

23. At all material times, individual BL was not a client of the Dealer Member. Individual BL was the principal of Company A Ltd.

24. Between around December 2020 and February 2021:

(a) individual BL deposited approximately \$5,000 into individual BL’s online TFSA at Company #2, and Company A Ltd. deposited approximately \$140,000 into its online corporate margin account at Company #2;

(b) the Respondent, while registered as an Approved Person of the Dealer Member:

- i. repeatedly accessed online brokerage accounts in the name of individual BL and Company A Ltd., including by using user identifications and account passwords that he obtained from them;
- ii. executed trades in non-mutual fund securities in the accounts, including in equity securities, options trading, and the foreign exchange market, in the accounts; and

(c) charged Company A Ltd. and individual BL fees totaling approximately \$1,048.

25. After the Respondent resigned from the Dealer Member, he continued to access online brokerage accounts of individual BL and Company A Ltd., and executed trades in non-mutual fund securities in the accounts for a fee.

26. While the Respondent was registered with the Dealer Member, the Dealer Member was not aware that the Respondent was engaged in the conduct described above in respect of clients JE, KE, LC, VL RL, Individual BL and Company A Ltd.

27. None of the transactions processed by the Respondent or fees he charged as described above in respect of clients JE, KE, LC, VL RL, Individual BL and Company A Ltd, were carried on for the account of the Dealer Member or through its facilities.

Post-registration Conduct

28. As described above, during the period after the Respondent resigned from the Dealer Member on February 22, 2021, the Respondent continued to trade in non-mutual fund securities for a fee in the accounts of clients JE, KE, LC, and individual BL and Company A Ltd.

29. In addition, the Respondent engaged in similar conduct trading in non-mutual fund securities in online brokerage accounts for clients CK and JP, and individual DK.

30. By engaging in the conduct described above in respect of clients JE, KE, LC, VL, RL, individual BL, and Company A Ltd., while registered with the Dealer Member, the Respondent engaged in securities related business that was not carried on for the account or through its facilities, contrary to the Dealer Member's policies and procedures and Mutual Fund Dealer Rules 1.1.1, 2.1.4, 2.1.1, and 1.1.2 (as it relates to Rule 2.5.1) (formerly MFDA Rules 1.1.1, 2.1.4, 2.1.1, 1.1.2, and 2.5.1).

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 pursuant to Mutual Fund Dealer Rule 1A that any person subject to the jurisdiction of the Mutual Fund Dealers Association of Canada prior to January 1, 2023 remains subject to the jurisdiction of CIRO in respect of any action or matter that occurred while that person was subject to the jurisdiction of the Mutual Fund Dealers Association of Canada at the time of such action or matter.

NOTICE is further given that the Mutual Fund Dealer Rules provide that if, in the opinion of the Hearing Panel, the Respondent:

- has failed to carry out any agreement with CIRO;
- has failed to comply with or carry out the provisions of any federal or provincial statute relating to the business of the Dealer Member or of any regulation or policy made pursuant thereto;
- has failed to comply with the provisions of the Mutual Fund Dealer Rules of CIRO;
- has engaged in any business conduct or practice which such Hearing Panel 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;
- (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, Mutual Fund Dealer Division within twenty (20) days from the date of service of this Notice of Hearing.

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

Canadian Investment Regulatory Organization
Mutual Fund Dealer Division
121 King Street West, Suite 1000
Toronto, ON M5H 3T9
Attention: Sam Wu and Eric Chow
Email: swu@ciro.ca and echow@ciro.ca

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

- (a) providing 4 copies of the **Reply** to the Office of the Corporate Secretary, Mutual Fund Dealer Division by personal delivery, mail or courier to:

Canadian Investment Regulatory Organization
Mutual Fund Dealer Division
121 King Street West, Suite 1000
Toronto, ON M5H 3T9
Attention: Office of the Corporate Secretary; or

- (b) transmitting 1 electronic copy of the **Reply** to the Office of the Corporate Secretary, Mutual Fund Dealer Division by e-mail at hearings@ciro.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 CIRO in the Notice of Hearing; or
- (ii) admit the facts alleged and conclusions drawn by CIRO 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 CIRO 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 CIRO in the Notice of Hearing as having been proven and may impose any of the penalties described in the Mutual Fund Dealer Rules.

End.

ⁱ On January 1, 2023, the Investment Industry Regulatory Organization of Canada (“IIROC”) and the Mutual Fund Dealers Association of Canada (the “MFDA”) were consolidated into a single self-regulatory

organization recognized under applicable securities legislation that is called the Canadian Investment Regulatory Organization (referred to herein as “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 (the “Interim Rules”). The Interim Rules include (i) the Investment Dealer and Partially Consolidated Rules, (ii) the UMIR and (iii) the Mutual Fund Dealer Rules. These rules are largely based on the rules of IIROC and certain by-laws, rules and policies of the MFDA that were in force immediately prior to amalgamation. Where the rules of IIROC and the by-laws, rules and policies of the MFDA that were in force immediately prior to amalgamation have been incorporated into the Interim Rules, Enforcement Staff have referenced the relevant section of the Interim Rules. Pursuant to Mutual Fund Dealer Rule 1A and s.14.6 of By-Law No. 1 of CIRO, contraventions of former MFDA regulatory requirements may be enforced by CIRO.