

The Ontario Securities Commission

OSC Bulletin

July 12, 2018

Volume 41, Issue 28

(2018), 41 OSCB

The Ontario Securities Commission administers the *Securities Act* of Ontario (R.S.O. 1990, c. S.5) and the *Commodity Futures Act* of Ontario (R.S.O. 1990, c. C.20)

The Ontario Securities Commission

Cadillac Fairview Tower
22nd Floor, Box 55
20 Queen Street West
Toronto, Ontario
M5H 3S8

416-593-8314 or Toll Free 1-877-785-1555

Contact Centre – Inquiries, Complaints:

Office of the Secretary:

Published under the authority of the Commission by:

Thomson Reuters
One Corporate Plaza
2075 Kennedy Road
Toronto, Ontario
M1T 3V4

416-609-3800 or 1-800-387-5164

Fax: 416-593-8122
TTY: 1-866-827-1295

Fax: 416-593-2318



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ISSN 0226-9325
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Chapter 1

Notices / News Releases

1.1 Notices

1.1.1 OSC Staff Notice 11-782 *Getting Started: Human-Centred Solutions to Engage Ontario Millennials in Investing*

OSC Staff Notice 11-782 *Getting Started: Human-Centred Solutions to Engage Ontario Millennials in Investing* is reproduced on the following separately numbered pages. Bulletin pagination resumes at the end of the Staff Notice.

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OSC Staff Notice 11-782

Getting Started: Human-Centred Solutions to Engage Ontario Millennials in Investing

July 12, 2018

Introduction

As part of our continued efforts to deliver strong investor protection and foster innovation in the capital markets, the Ontario Securities Commission (OSC or we) is publishing *Getting Started: Human-Centred Solutions to Engage Ontario Millennials in Investing*, a behavioural insights research report outlining barriers millennials face when attempting to learn more about or start investing, as well as tactics for addressing these barriers. The full report is appended to this Notice.

Purpose

Facilitating the development of products and services that are responsive to investors' needs helps foster innovation and efficiency in the capital markets. The OSC is publishing *Getting Started* because it believes the report's findings will help a variety of stakeholders—including investment firms, organizations delivering investor education, investor advocates, fintech startups and other public and private organizations—to design products, services and programs that better respond to the needs of millennials.

Investing continues to be a critical element to financing lifestyle and retirement goals. However, there are wide gaps in the levels of experience and financial literacy among investors that require different approaches to support and guidance. In addition, different investor demographics have unique characteristics and present different challenges in terms of, among other factors, investment objectives and horizons. As outlined in the OSC's 2018-19 Statement of Priorities,¹ the OSC is committed to:

- conducting and publishing research that provides insights into retail investor knowledge, attitudes and behaviours to design better policies and programs as part of its evidence-based approach;
- developing tailored solutions to reach the broad range of investor groups, including seniors, millennials and new Canadians; and

¹ OSC Notice 11-781, *Notice of Statement of Priorities for Financial Year to End March 31, 2019* (2018), 41 OSCB 5425.

- expanding and modernizing its efforts in investor engagement, research, education and outreach to help investors build their knowledge, understanding and confidence in planning for their investment goals and retirement finances.

In addition, the OSC is integrating behavioural insights into its work. Behavioural insights examine how people are often neither deliberate nor rational in their decisions in the way that traditional models, strategies and policies assume.²

The findings of *Missing Out: Millennials and the Markets*, a 2017 research study published by the OSC Investor Office, presented an opportunity to pursue behavioural insights research that helps fulfill the objectives listed above. *Missing Out* found that, while many millennials are doing a great deal to prepare for their financial futures—4 in 5 have savings, and two-thirds have under \$15,000 in non-mortgage debt—many millennials find investing to be a challenge: only one in two have investments, and a majority of non-investors cited low knowledge of investing and fear of losing money in the markets as reasons why they do not currently invest.

In response to these findings, the OSC worked with Upside Consulting Group to better understand how millennials think and feel about investing, what barriers they face along their investing “journey,” and what stakeholders can do to help them overcome these challenges. The team conducted 90-minute in-depth interviews with 18 Ontarian millennials, each of whom is employed full-time and either had some early experiences with investing or was on the cusp of being able to do so. The team complemented this primary research with a literature review of relevant behavioural science research as well as an industry scan of current investing channels. Finally, the team also engaged a targeted group of industry participants, selected for their expertise in engaging with the Millennial cohort, to provide feedback on the initial insights from this research.

Substance

The findings of the research are described in greater depth in the full *Getting Started* report. The findings include the following four key insights gained from the research:

1. Many millennials are at a life stage where it’s difficult to picture one’s future self, as so much about life remains uncertain, and investing feels like something that limits one’s freedom to try on new identities and experiences.
2. Millennials are deeply affected by their perceptions of where their peers are at. Social comparisons can serve as important reference points for setting and acting on financial goals, as long as they feel relevant and don’t feel out of reach.
3. Investing feels overwhelming if there is no clear way to take the first step. Paralysis over having too many options is exacerbated by industry practices that evoke skepticism and undermine trust.

² See OSC Staff Notice 11-778, *Behavioural Insights: Key Concepts, Applications and Regulatory Considerations* (2017), 40 OSCB 2773.

4. Experimentation can build confidence in the investing process. In the absence of opportunities to test and learn, those with little or no knowledge of investing fear loss to a degree that is a barrier to investing.

These insights informed the development of six “design principles,” which are meant to start conversations among stakeholders about how to develop and refine programs, products and services in ways that better meet the needs of their “users”—Ontario millennials.

- 1. Prompt millennials to identify their own unique motivation for investing and validate that motivation in a non-judgmental way.**

Instead of making assumptions about millennials’ motivations or the life milestones they have in mind, help them identify their own motivation. When they discover their motivation and can see investing as relevant to it they are more likely to engage.

- 2. Meet millennials where they are by providing personalized, achievable steps that make it easy to get started.**

Use available information to propose a starting point that makes sense to the user (e.g., prompting them to set aside a percentage of their wages after they start a new job), narrowing the scope of questions and decisions and making the process feel less overwhelming.

- 3. Lengthen perspective by making the future consequences of current actions feel more concrete.**

Draw attention to longer-term considerations by connecting the impact of current decisions to their future consequences.

- 4. Curate aspirational social comparisons to promote achievable investing habits.**

Social comparisons need to be chosen carefully: they can be motivating if they feel achievable and relevant to an individual’s circumstances, but can be discouraging if they seem out of reach.

- 5. Allow for low-risk experimentation, reinforcing early learnings with feedback that builds confidence and motivates continued progress.**

Once they get started, millennials crave regular reinforcement that the steps they’re taking are having the expected result.

- 6. Inspire trust by putting the user’s needs first.**

Millennials are focused on getting advice from people who have their needs top of mind.

The OSC Investor Office carries out a wide variety of investor education and outreach initiatives, including via its [GetSmarterAboutMoney.ca](https://www.getsmarteraboutmoney.ca) website, and the design principles identified in *Getting Started* will inform its outreach to millennials over the coming year.

The OSC believes that the design principles described in *Getting Started* also will be helpful to a broad range of stakeholders in the financial ecosystem, including investment firms, organizations delivering investor education, investor advocates, fintech startups, and other organizations.

The design principles identify pathways to develop and test new models, observe how their users respond and continue to learn and adapt. The OSC looks forward to engaging in conversations with stakeholders about opportunities to implement the findings of this report.

Questions

If you have any questions or comments about this Notice or *Getting Started*, please contact:

Tyler Fleming
Director
Investor Office
20 Queen Street West, 22nd Floor
Toronto, ON M5H 3S8
Email: tfleming@osc.gov.on.ca

Sarah Reid
Senior Advisor, Social and Behavioural Insights
Investor Office
20 Queen Street West, 22nd Floor
Toronto, ON M5H 3S8
Email: sreid@osc.gov.on.ca

Doug Sarro
Senior Advisor, Research and Regulatory Innovation
Investor Office
20 Queen Street West, 22nd Floor
Toronto, ON M5H 3S8
Email: dsarro@osc.gov.on.ca

Getting Started:

Human-Centred Solutions

to Engage Ontario Millennials

in Investing





About Upside Consulting Group

Upside was founded in 2006 with a vision of helping clients benefit from the transformation facing the wealth management industry. Most firms have strategies for dealing with the changing landscape, but do they go far enough? Whether it's designing new products, transforming distribution models or improving the client experience, we bring a user-centric mindset and knowledge of FinTech trends to stretch your thinking. Then, we provide business planning, facilitation and program management to help you translate strategies into actions that produce measurable results.

Amelia Young, CFA

Amy combines the science of quantitative analysis with the art of behavioural and human-centred design to help businesses work better. She brings 25 years of experience in equity research, corporate strategy and management consulting to help wealth management firms benefit from the transformation currently reshaping the industry.

Rick Wolfe

Since the 1990's Rick has based his qualitative research practice on a behavioural, human centred approach to problem solving, service design and innovation. His background in theatre (Master of Fine Arts in Stage Direction), the global advertising industry and consulting have shaped his research methods.

Bruce Sellery

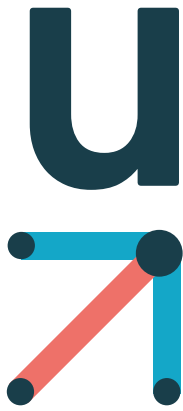
Bruce is a personal finance expert, financial literacy consultant and author of two Globe & Mail bestsellers including, "Moolala: Why smart people do dumb things with money (and what you can do about it)". He is the Money Columnist for CBC Radio, Cityline and MoneySense and was the host of Million Dollar Neighbourhood on the Oprah Winfrey Network.

Acknowledgements

We would like to acknowledge the substantial contributions of the OSC Investor Office Senior Advisors Sarah Reid and Doug Sarro to this report, as well as the industry stakeholders who participated in various interviews and provided feedback on our draft design principles.

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Executive Summary

Project Context

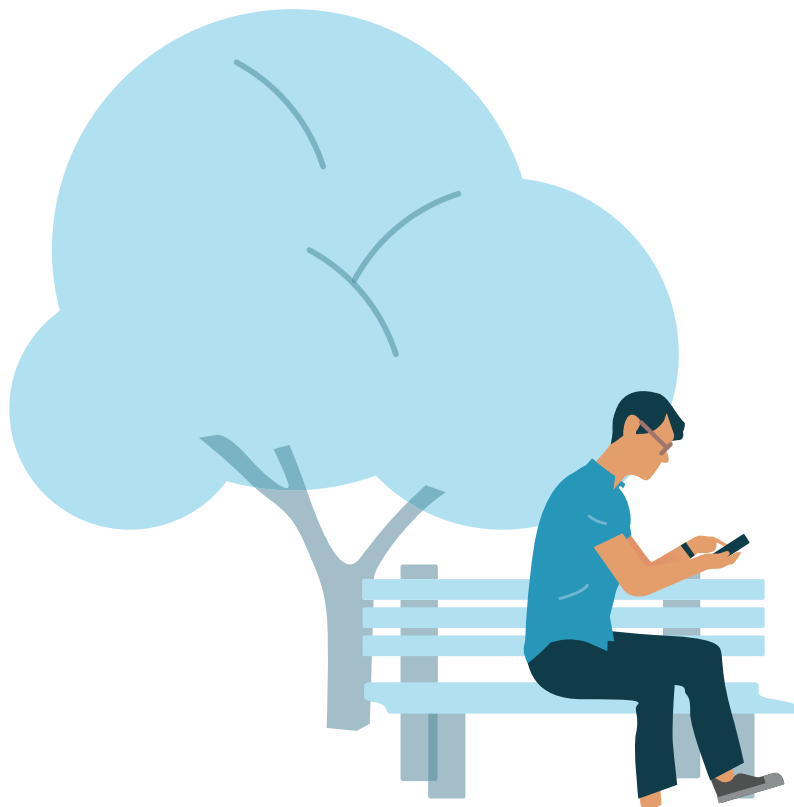
Investing is the act of putting money into ventures that have the potential to pay back more in the future. Put another way, it's an opportunity to make money work for you. Combined with responsible spending, saving and borrowing, investing is an important part of preparing for one's financial future. However, investing can also be stressful, overwhelming and intimidating. The options available are countless, choosing between them means learning new terminology, and their potential benefits are uncertain and distant in time.

Missing Out: Millennials and the Markets, a 2017 research study published by the OSC Investor Office, found that millennials are committed savers: 4 in 5 Ontario millennials (age 18–36) have savings, and 73 per cent of those with savings set aside monthly or with each pay cheque (OSC 2017b). This research also found, however, that feelings of fear and lack of trust may be leading many younger Ontarians to avoid investing. Only 1 in 2 millennials have investments and, while many non-investor millennials cited economic constraints as a barrier to investing, many cited other factors as well, including not knowing enough about investing (59 per cent of non-investors), fear of losing money in the markets (57 per cent), and low trust in big banks and investment firms (30 per cent) (OSC 2017b).

These findings raised a number of questions. What does investing mean to millennials? What are their preconceptions about investing? Where and from whom do they learn about investing? What are the perceived costs and benefits from investing? What trips them up and at what point does this happen? What can stakeholders do to help?

Approach

This report seeks to shed light on these questions. It begins by examining relevant literature from the behavioural sciences and the existing industry landscape. We supplemented this review with qualitative research focused on the financial lives of younger Ontarians: over the course of two weeks in February 2018, we conducted 90-minute in-depth interviews with 18 Ontarian millennials, each of whom is employed full-time and either had some early experiences with investing or was on the cusp of being able to do so. We also engaged a small group of industry participants, selected for their expertise in engaging with the Millennial cohort, to provide feedback on our initial insights from this research. We synthesized the learnings gained from this work into a set of behavioural design principles intended to help stakeholders in the investing ecosystem to design products, services, and programs to respond to the needs of potential millennial investors.



What You'll Find in this Report

LITERATURE REVIEW.

Literature from the behavioural sciences suggests that millennials face significant obstacles to investing that affect even those with the economic resources to invest. Behaviour change requires motivation, ability, and an appropriate trigger, but in the case of investing, each of these elements is often lacking. First, individuals tend to be less motivated to take action when the potential benefits of that action are uncertain and distant in time, as is the case with investing. People don't feel connected to their future selves, and this is particularly true for millennials going through the life stage of "emerging adulthood," when little about the future course of one's life feels certain. Second, individuals often find complex, unfamiliar environments, like investing, overwhelming and discouraging. Third, triggers are difficult to design due to the other two challenges laid out above, and because the behaviour we want to encourage depends on an individual's circumstances – not every investment is right for everyone, and investing isn't always right for everyone. The literature does, however, suggest possible strategies for developing triggers that help individuals connect with their future selves and build confidence with investing.

CURRENT INVESTING CHANNELS.

However, the investing channels commonly available to millennials don't appear to be providing effective triggers. Banks tend to focus on goals and milestones that don't resonate with millennials. Online investment advisors (often referred to as "robo-advisors") can gain trust by communicating in an approachable and transparent way, but the virtual engagement model may not give first-time investors the reassurance they need to get started, and opening a new investment account outside the big bank context can be a significant leap for individuals who lack significant experience using financial services. Microinvesting, which automates saving and investing with the aim of making both painless, has potential to help millennials get started, but this concept is relatively new in the Canadian market and faces challenges similar to robo-advice providers in encouraging individuals to establish financial relationships outside of the "big bank" context. Workplace pensions have tremendous potential to help millennials get started investing – automatic enrolment and the perception of "free money" from employer matching are powerful tools for encouraging investment – but these pensions are out of reach for many millennials.

INTERVIEW INSIGHTS AND JOURNEY MAP.

Our qualitative research helped us investigate some of the reasons why existing financial services channels do not seem to be serving the needs of prospective investors in the millennial cohort. Much of what we heard resonated with the existing literature, but helped us better understand how this literature applies to investing. Our research uncovered four key insights:

1. Many millennials are at a life stage where it's difficult to picture one's future self, as so much about life remains uncertain, and investing feels like something that limits one's freedom to try on new identities and experiences.
2. Millennials are deeply affected by their perceptions of where their peers are at. Social comparisons can serve as important reference points for setting and acting on financial goals, as long as they feel relevant and don't feel out of reach.
3. Investing feels overwhelming if there is no clear way to take the first step. Paralysis over having too many options is exacerbated by industry practices that evoke skepticism and undermine trust.
4. Experimentation can build confidence in the investing process. In the absence of opportunities to test and learn, those with little or no knowledge of investing fear loss to a degree that is a barrier to investing.

Our research also helped us design a map depicting a journey of a first-time, millennial investor (see page 24). Designing this map helped us better understand the steps involved in moving from being a non-investor to an investor, as well as the obstacles that keep many from moving from one step to another.

DESIGN PRINCIPLES FOR STAKEHOLDERS.

Our research informed the development of six "design principles," each of which is meant to start conversations among stakeholders about how we can develop and refine programs, products, and services in ways that better meet the needs of their users. For purposes of this report, the word "users" means Ontarian millennials. These design principles are listed below:

1. Prompt millennials to identify their own unique motivation for investing and validate that motivation in a non-judgmental way.
2. Meet millennials where they are by providing personalized, achievable steps that make it easy to get started.
3. Lengthen perspective by making the future consequences of current actions feel more concrete.
4. Curate aspirational social comparisons to promote achievable investing habits.
5. Allow for low risk experimentation, reinforcing early learnings with feedback that builds confidence and motivates continued progress.
6. Inspire trust by putting the user's needs first.

Literature Review

Human behaviour is highly influenced by unconscious biases. We have two systems for making decisions: an intuitive, automatic system that is accountable for many of our everyday decisions (System 1) and a deliberate, logical system that rationally analyzes and solves problems (System 2) (Kahneman 2011). Because we lack the time and energy to employ System 2 for all of the decisions we make, we cope by employing System 1 as often as we can. System 1 is highly susceptible to making mistakes in judgment, however, particularly mistakes that favour instant gratification over long-term well-being.

The OSC Investor Office's Behavioural Insights Report provides an extensive review of the implications these phenomena have for financial decision-making (OSC 2017a), and we do not seek to repeat this work here. Instead, after providing context on the Millennial "mindset," we focus on two elements of this literature that are particularly salient to our project: a model of behaviour change that specifies the conditions required for a target behaviour to occur, and studies of specific factors that help to satisfy or impair them.

What's Going on With Millennials?

*"When our mothers were our age, they were engaged ... They at least had some idea what they were going to do with their lives ... I, on the other hand, will have a dual degree in majors that are ambiguous at best and impractical at worst (English and political science), no ring on my finger and no idea who I am, much less what I want to do... Under duress, I will admit that this is a pretty exciting time. Sometimes, when I look out across the wide expanse that is my future, I can see beyond the void. I realize that having nothing ahead to count on means I now have to count on myself; that having no direction means forging one of my own."
(Kristen, age 22)*

This quotation, from Jeffrey Arnett's May 2000 paper entitled "Emerging Adulthood: A Theory of Development from the Late Teens Through the Twenties," captures an important piece of context about the Millennial mindset (at least in western societies). In previous generations, the path to adulthood was relatively simple – one becomes an adult after completing adolescence – and one's life path was largely set by one's early twenties.

But the myriad of options available to millennials today, coupled with the uncertainties caused by social and technological change, such as the rise of precarious work and the gig economy, has engendered an amorphous, intermediate stage between adolescence and adulthood, which Arnett refers to as "emerging adulthood."

Emerging adulthood is "a time of life when many different directions remain possible, when little about the future has been decided for certain, when the scope of independent exploration of life's possibilities is greater for most people than it will be at any other period of the life course"

(Arnett 2000). Individuals react to this broad range of potential options by seeking out a wide range of experiences before settling down into the roles and responsibilities of adult life.

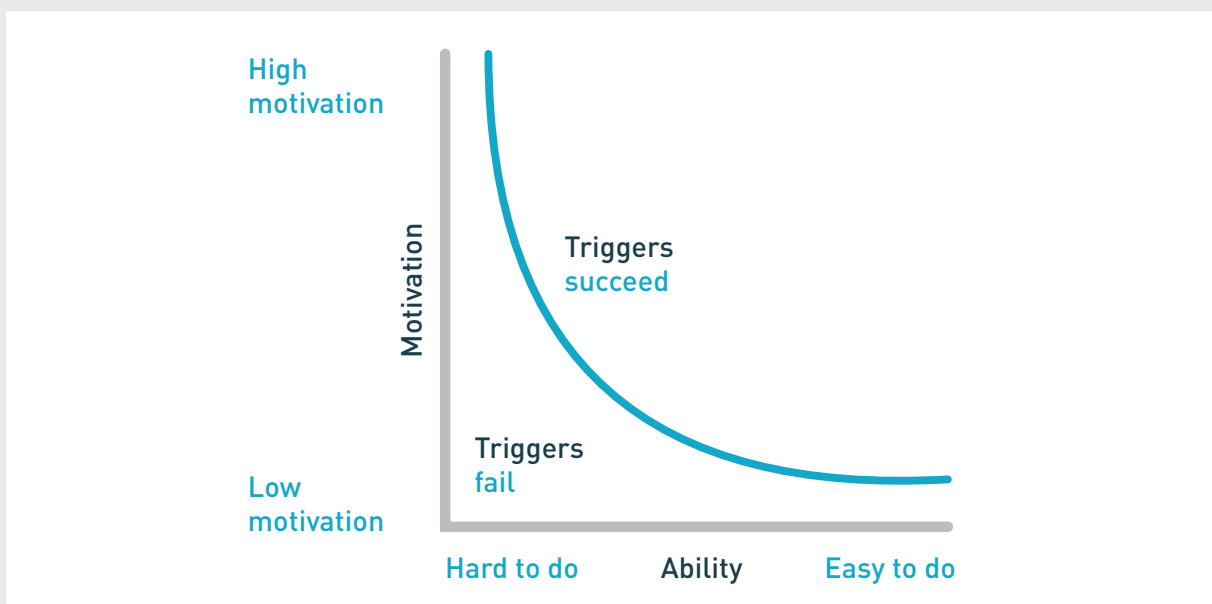
Emerging adulthood is amorphous because it is difficult to know when it ends. Emerging adults rank concrete events such as finishing education, choosing a career, marriage and parenthood at the *bottom* of possible criteria associated with reaching adulthood. The top three criteria they rank as signifying adulthood are relatively vague: “accepting responsibility for oneself”, “making independent decisions” and “financial independence.” Social comparisons are also unhelpful in identifying transition points. While, up to the age of 18, nearly everyone’s status is “student” and they are living with parents or guardians, and by the mid-30s many have completed their education, are married and have become parents, a person’s demographic status is very difficult to predict in between these ages.

The wide variety of options and highly transient nature of the emerging adult life stage provide important context regarding the mindset millennials may bring to decisions about saving and investing.

Behaviour Change Requires Motivation, Ability and a Trigger

The Fogg Behaviour Model (Fogg 2009) tells us that for a target behaviour to occur, a person must have sufficient motivation, sufficient ability and an effective trigger. Figure 1 below illustrates that behaviours for which people have high motivation and high ability are the most likely to occur. Above the line where motivation and ability are in equilibrium, triggers are effective; below it, they are not.

Figure 1: THE FOGG BEHAVIOUR MODEL



The model also illuminates the concept of tradeoffs between motivation and ability. Tasks that are easy to perform require relatively low levels of motivation. In contrast, tasks for which people feel a high degree of motivation don't have to be particularly easy because people are willing to expend energy to complete them.

Applying the Fogg model to the behaviour of getting started with investing suggests a three-pronged challenge:

- Motivation is generally low. Investing requires delaying gratification for uncertain benefits that will occur far in the future.
- Ability is generally low. Investing generally requires many steps and interdependent decisions. It's difficult to know where to start.
- Triggers may be difficult to design, both because they need to overcome low motivation and low ability, and because the target behaviour is difficult to define – it will vary depending on an individual's circumstances (including their financial goals and means).

Below, we review relevant literature on the factors that affect motivation and ability, and discuss in greater detail how this literature may apply to investing. We then turn to discuss insights from the literature on how to design triggers that could help increase individuals' motivation and ability to become investors.

What Motivates People?

Psychologists distinguish between *intrinsic* motivation and *extrinsic* motivation (Deci and Ryan 2008). We feel *intrinsically* motivated to do something when it's something we're interested in or that we enjoy doing. By contrast, we feel *extrinsically* motivated to do something when we are seeking an external reward or avoiding external punishment. Fostering intrinsic motivation is believed to be a more effective way of bringing about behaviour change than creating punishment and reward systems designed to foster extrinsic motivation (Deci and Ryan 2008). Accordingly, we turn to focus more closely on intrinsic motivation and its sources.

It has been suggested that intrinsic motivation flows from three core needs: autonomy, competence and relatedness (Deci and Ryan 2008). In other words, we are intrinsically motivated to do things that give us a sense of control, that we feel competent at doing, and that help connect us to others. We feel less motivated to do things if we feel we can't control their outcomes, if we don't feel like we're good at doing them, and if doing them doesn't help us feel connected to others.

Investing can give us greater control over our financial futures over the long-term, but we don't necessarily see it that way when making financial decisions. We tend to favour the immediate over the distant: we have trouble delaying immediate gratification to achieve distant gains (Samson 2016).

We also tend to prefer the concrete over the abstract (Malkoc, Zauberger and Bettman 2010) – the emotions we feel in the present guide the decisions we make, and abstractions don't engage us emotionally (Chang and Pham 2013). Investing feels especially abstract because its benefits are uncertain, distant in time, and relate to a distant future self (who may feel especially distant to millennials in the midst of emerging adulthood) (Trope and Liberman 2010).

Each of these factors creates *psychological distance* that makes the potential benefits of investing less salient and less likely to be acted on. What's more, uncertainty over the benefits of investing triggers another bias – we feel losses more acutely than gains (Samson 2016) – that may lower the motivation to invest, as fear of potential loss may lead us to avoid opportunities for future gain (*loss aversion*).

The cognitive biases described above may also influence how we seek to fulfill our intrinsic needs to feel competent and connected to others: immediate gratification is self-affirming in the present, and spending on experiences can help connect us to friends and family; investing will not provide these benefits instantaneously. These biases also affect our perception of factors relevant to extrinsic motivation: we place greater weight on rewards and punishments that are more immediate than on those that lie farther out in time and are less certain.

What Influences Ability?

Ability is in part a function of simplicity – generally, the easier it is to do something, the more likely people are to do it (Eyal 2014). When performing a targeted behaviour means choosing between a large number of options, or highly complex options, we tend to feel overwhelmed and afraid to make a decision (Samson 2016). As a result, we will defer or avoid making that decision. This phenomenon is called *choice overload*, and it renders us less likely to perform target behaviours that require us to grapple with too much complexity.

By contrast, if performing a target behaviour is the default option, we generally are much more likely to perform it. This is due to our natural tendency towards *inertia* – to choose the path of least resistance (Thaler and Benartzi 2004). Simplicity only works up to a point, however. While we may accept a default choice set by someone we know and trust, we tend to be skeptical of defaults set by those we don't know or don't trust. In these environments, we prefer to be more involved in the decision-making process, so that we can feel that we've done our due diligence and made a choice that works for us (Sunstein 2012).

Simplicity, managed correctly, can create positive feedback loops that encourage people to form habits. This is because making a target behaviour simpler to do strengthens our self-efficacy – our belief in our ability to perform that target behaviour. Individuals with high self-efficacy feel more able to and are more likely to achieve behavioural outcomes (Bandura 1994). Self-efficacy leads us to set higher goals, exhibit stronger perseverance in the face of adversity, and feel less stress and anxiety when attempting a target behaviour. Doing activities that promote our self-efficacy helps us fulfill our intrinsic need to feel competent, hence enhancing our motivation to continue to perform (and build a habit of performing) that behaviour (Bandura 1994).

But this feedback loop can operate in reverse. Being faced with overwhelming amounts of complex, unfamiliar choices undermines our self-efficacy, rendering us both less able and less motivated to complete a target behaviour. Because we tend to interpret information in ways that confirm our existing beliefs (*confirmation bias*) (Dawson, Gilovich and Regan 2002), feelings of low self-efficacy can leave us reluctant to attempt a target behaviour again even when circumstances change.

Investing today is anything but simple. As illustrated by our industry review and the outcomes of our interviews with millennials, discussed later in this report, many younger Ontarians feel overwhelmed by investing and don't know where to start. However, millennials' low familiarity with investing means that making things too simple and setting defaults that don't feel personalized may not resonate—millennials may feel more comfortable with choices that remove unnecessary complexity, but allow them to feel involved in making the decision. These considerations suggest a need for powerful but well-calibrated triggers that can have positive effects on both motivation and ability.

Finding Triggers That Work

A trigger is something that tells people to perform a behaviour now. Triggers can be designed to spark our motivation to perform a behaviour, or to facilitate our performing that behaviour by making it easier or giving us the confidence to perform it (Fogg 2009). A trigger may also serve as a reminder to do something that we already have the motivation and ability to do – for example, moving savings into a separate “savings account” helps remind us of our savings goals (Soman and Cheema 2011).

Defining what behaviour a trigger should encourage among non-investors is challenging, as the target behaviour will depend on the individual's circumstances: investments that are suitable for some individuals may not be suitable for others, and, for some people, the best option may be to hold off on investing until later. The literature does, however, suggest a number of factors that could be helpful in developing triggers that, once an appropriate target behaviour is identified, could build motivation by connecting us with our future selves and build individuals' self-efficacy with respect to investing.

Tactics intended to connect us with our future selves fall into one of two categories. First, they may encourage us to think in a more abstract way that leads us to consider the interests of our abstract future selves. For example, Barry and Halfmann (2016) found that stimulating people to think about abstract, intangible concepts promotes greater focus on the long term. Second, we can frame choices in ways that make the future feel more concrete. This was illustrated in a study that aimed to motivate college students to donate to a food drive. A specific request for a certain type of food, accompanied by a clear way to get it done (a map and a specific time) got the group deemed least likely to donate to give at three times the rate of those deemed most likely to donate but who hadn't been given a clear path of action (Ross and Nisbett 1992).

Numerous studies illustrate how reducing psychological distance between one's current and future self produces more future-oriented decision-making:

- College seniors who were told that graduation would not change their identity required a lower premium to defer receipt of a gift card reward (in other words, they required less of an incentive to leave the reward for their future selves) than students who were told that their imminent graduation would impart substantial changes to their identity (Bartels and Urminsky 2011).
- Study subjects who were shown a photo of themselves aged to 70 years allocated \$172 of a \$1,000 prize toward retirement, compared to only \$80 for those who were not shown the aged photo. (Hershfield 2011).
- Feelings of power enhance people's connection with their future selves, causing them to choose future-oriented rewards (Joshi and Fast 2013).

The Joshi and Fast (2013) study referred to above may also illustrate how building self-efficacy can help us foster a sense of control over our future and, accordingly, a greater willingness to plan for it. Bandura (1991) cites three additional experiences that impact perceptions of self-efficacy; these tactics may help bridge psychological distance as well:

- **Mastery experiences** – Successes build a robust belief in one's ability to exercise control over potential threats. Experiencing success with an activity provides evidence of ability to perform similar activities, reduces the perceived risk of loss, rejection or other adverse consequences and thus reduces psychological distance. Conversely, failures undermine self-efficacy and increase psychological distance because they heighten the perceived risks associated with the activity.
- **Vicarious experiences** – Seeing people similar to oneself succeed in an activity raises observers' beliefs that they too possess the capabilities to master comparable activities. Psychological distance is narrowed because we experience mastery by association. The effect of vicarious experiences is amplified when behaviours are witnessed across society. The perception that "everyone" is doing something creates a strong motivation to adopt similar behaviour.¹
- **Social persuasion** – People who are persuaded verbally that they possess the capabilities to master given activities are likely to mobilize greater effort and sustain it. Encouragement narrows the psychological distance between the current self and the future (successful) self by counteracting self-doubts and limiting focus on personal deficiencies when problems arise.

¹ Vicarious experiences presented to an individual must be relevant to their circumstances to be effective—examples that feel out of reach may undermine self-efficacy and demotivate (Beshears 2015).

Users are Getting Stuck in a Cycle of Inaction on their Journey Toward Investing

Theory on behaviour change tells us that changes only stick when there is motivation, ability and a trigger. We know that people struggle to motivate themselves to do things now that don't pay off until later. The challenge of connecting with one's future self is exacerbated for millennials because they are also at a life stage where the future is still very much out of focus. It's no surprise then that the benefits of investing are out of sight.

Low motivation can be overcome if a behaviour is simple, but prospective investors are faced with an array of complex and unfamiliar choices that make it hard for users to find a clear path that they can visualize themselves following. Because they don't know where to start, many millennials may put off the journey towards becoming an investor, concluding that investing can wait for later.

Thus, users are confronted with a circular problem on their journey to becoming investors: those who aren't familiar with investing can't get started because they don't know where to start or who they can trust.

In the next section of this report, we evaluate the predominant service models available to millennials to determine whether they offer triggers that can motivate and enable more millennials to start investing.



Today's Investing Channels

There is no shortage of places for millennials to find help with investing. We divide the main options available to millennials into four broad categories:

1. Bank and Credit Union Branches
2. Robo-Advisors
3. Microinvesting
4. Workplace Pensions

In addition to the sources of investing products and services above, there is a wide range of content available from various books and personal finance bloggers. The key strengths of these sources are their simplicity and objectivity; they lay out a clear process in plain non-technical language and are free of conflicts because they usually aren't selling investment products. The challenge is that seeking out the right advice requires a level of motivation that many people may not have and it's hard to know when, where, and how to apply the advice to one's own situation.

Searching Google is similarly problematic because many people get stuck at the first step: "what do I search for?" Even if they overcome this hurdle, they are then faced with the challenge of interpreting search results to weigh what information is most appropriate for them and then how to translate it into concrete actions. The combination of confusion and inertia makes taking the first step, or even knowing what that is, very daunting.

It is also important to note that there are several other channels through which Ontarians manage significant amounts of wealth, including accounts with investment advisors, financial planners, insurance advisors and private investment counsels. While these channels are generally reserved for people who are further along in their investing journey, it's not uncommon for advisors serving affluent segments to offer advice to the millennial children of their clients. Because these channels are for the most part only available to a privileged subset of millennials, we do not profile them in this report.

In addition, because we are concerned with millennials' behaviour with respect to investing channels offering broad exposure to the capital markets, we do not explore non-traditional channels that are popular with certain portions of the millennial demographic—such as crowdfunding and the emerging "crypto" sector—that do not provide this exposure.

Bank and Credit Union Branches

Branches of the Big Five retail banks are by far the dominant source of investing services for Ontario millennials. *The Missing Out study* found that 67% of investor respondents sought out information from a bank to get started investing (OSC 2017b). There are three probable reasons for this:

1. For people just starting out, investing may be heavily intertwined with saving and other “money matters,” and most Canadians have a longstanding relationship with their bank as a place to save.
2. When you don't know what questions to ask, having a conversation with someone who knows (at least a bit) more than you may be seen as a way to get started.
3. The conversation doesn't cost money.

There are also limitations to this model, however. First, banks aren't clear about how much money you need to get started. This can be a significant barrier to entry since most people don't know which services are right for them and the fear of being rejected looms large. Second, this is exacerbated by the fact that bankers often frame conversations in terms of conventional life goals that may not resonate with millennials. They also tend to speak in jargon that restrains people from asking questions for fear of looking inept. While most branches have CFPs on staff who are capable of answering any question a beginning investor might have, small clients don't always have access to people with the necessary expertise to fully explain investing products and concepts. Branch staff also have a strong incentive to sell proprietary products, which often causes their advice to be received with a degree of skepticism as to their motive.

Robo-Advisors

Online investment advice (often referred to as “robo-advice”) gains competitive advantage on the getting started front in a few important ways: it's transparent about who qualifies, the onboarding process is relatively frictionless and fee transparency increases the perceived objectivity of the advice. In addition, many robo-advice offerings make a priority of using plain language and intentionally target millennial priorities and values.

However, the fact that robo-advice platforms report high customer acquisition costs and have yet to capture substantial market share suggests that the model also misses the mark in addressing behavioural barriers. First, the need to establish a new relationship with an organization is a friction point, especially given the low motivation and inertia surrounding money matters, and particularly where that organization is relatively young and unproven. Second, while the digital nature of the service makes it more accessible, it can also make the service less tangible for those who are new to investing and don't yet have a mental model of how it works.

Microinvesting

While relatively new in Canada, the large numbers of customers using microinvesting platforms in the US² indicates that the model has the potential to make investing more engaging. The *Missing Out* report found that 66 percent of non-investor millennials say they aren't investing because they don't make or don't have enough money. Micro investing seeks to overcome this barrier by allowing the user to automatically transfer small amounts into savings (like rounding up purchases or a small daily amount) that the user is unlikely to miss. Then, the firm automatically invests those savings in a robo-advice solution.

While the total amount saved is relatively small (usually about \$20 per month), this can play an important role in building the user's confidence that they can in fact save *something*. It also reduces the barrier of loss aversion because people are less afraid of losing small amounts that they didn't have to work hard to save; you start with nothing so it feels like you're risking nothing.

Workplace Pensions

While the rise of occasional, contract work and the gig economy has made workplace pensions less prevalent among the millennial cohort, they remain an important pathway for many to access the world of investing. However, plan design has a substantial impact on how effectively these plans are used, if at all. In keeping with the behavioural principles in the literature review, plans that offer automatic enrolment have substantially higher participation rates than those that don't, particularly if plan eligibility is immediate, because people are more likely to enroll if it's part of their employee onboarding process.

Relatedly, while accessing the "free money" associated with employer matching is a strong incentive to save, employees tend to only save amounts that maximize the employer match. For the most part, however, employees are not very engaged in these plans; they have an extremely high tendency to accept default contribution rates and investment options and rarely go back to update them.³

Plan administrators are beginning to offer services to increase employee engagement with their workplace pensions. Many are developing portals to make it easier to access plan information and do simple financial planning. In an effort to engage millennial employees, one firm recently launched a program offering pension matching for student loan payments. While these efforts are in their infancy, employers have the potential to be a powerful influencer in the investing ecosystem because employees tend to perceive them as a more trustworthy source of information than many traditional industry participants.⁴ This may partly explain why employees are so willing to accept defaults in this context.

2 <https://techcrunch.com/2018/02/26/acorns-the-financial-management-service-for-everyone-else-adds-3-million-users/>

3 Forecasting the Future of Group Retirement Plans, 2016 CAP Benchmark Report, Canadian Institutional Investment Network.

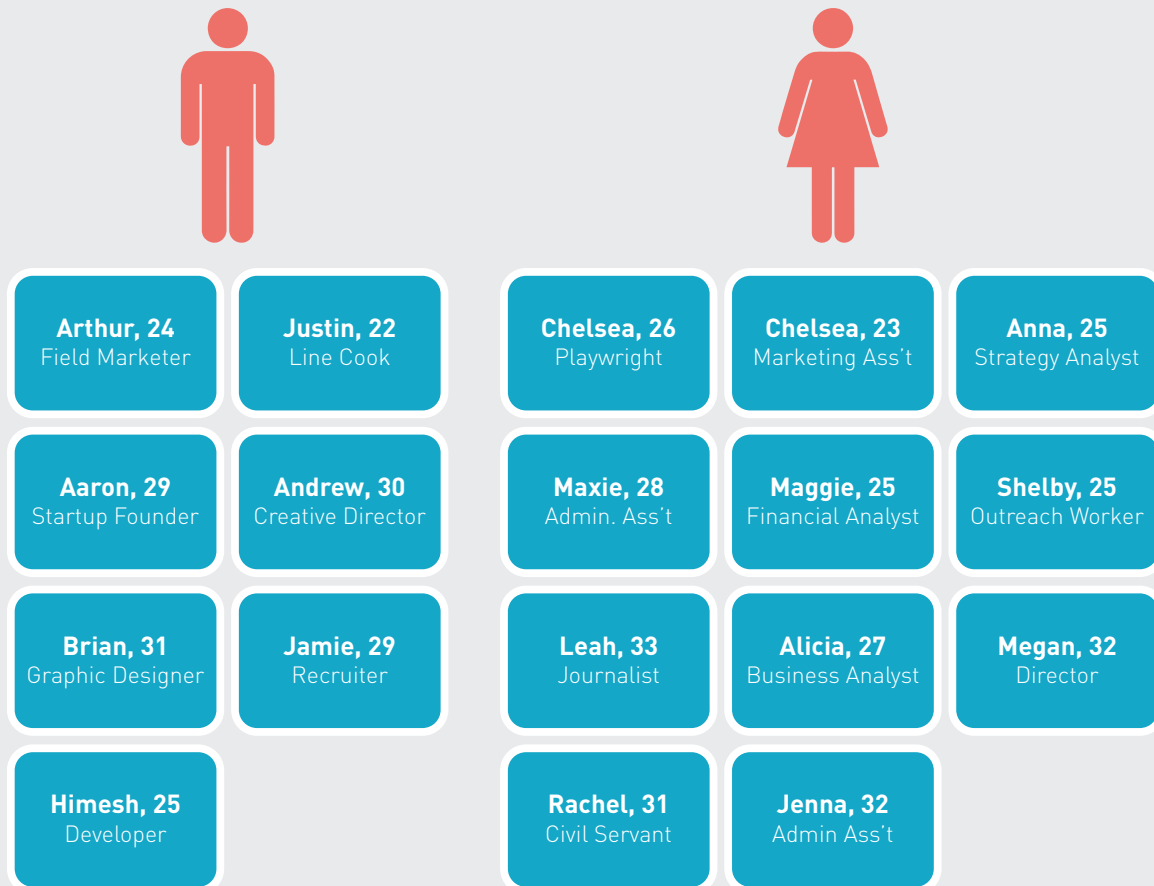
4 Healthy, Wealthy & Work-Wise: New Imperatives for Financial Security, Mercer, 2018.

Research Methodology

The quantitative research that underpinned the *Missing Out* report was quite broad. It addressed a representative sample of 1,585 Ontarians age 18 to 36, with results weighted by age, gender and region using Statistics Canada census data, and touched on many aspects of millennials' financial lives. In contrast, the purpose of our study was to develop an in-depth understanding of the experiences Ontario millennials are having in their journey towards investing: what makes them start thinking about it, what actions they take (or don't) and most importantly, why.

A different set of research questions called for a different approach. We conducted 18 90-minute in-person interviews with a targeted sample of millennials – individuals from the GTA and London who had completed their schooling and secured full-time employment. We gathered our sample largely through Facebook, Twitter and the team's personal networks. Participants ranged from 22 to 33 years of age and come from a range of career paths and socio-economic backgrounds (though mostly from solidly middle-class families). All have university degrees; the extent of parental support for that education varied widely but most had taken out student loans. Most lived independent of their parents, and while several were in long-term relationships, none were married or had children:

Figure 2: OUR INTERVIEW SAMPLE



Research Insights

Our nearly 30 hours of interviews produced insights surrounding thoughts, feelings and behaviours that characterize millennials' early experiences with investing and the events that led up to them. We heard about what consumes their attention and what they ignore, what excites them and what terrifies them, what engages them and what turns them off. While our sample size precludes statistical generalizability, several themes came through with great clarity and consistency. We heard these themes expressed repeatedly in different words and different situations. That much of what we heard reflected key themes in the existing behavioural science literature gives us greater confidence that these themes are not idiosyncratic to the particular people we interviewed, but reflect broader patterns relevant to a broader population.

These themes are captured in the four insights that follow. Below, we share these insights with accompanying evidence of what we heard from participants, as well as behavioural implications.



Insight #1 Many millennials are at a life stage where it is difficult to picture their future selves, as so much in their lives remains uncertain, and investing feels like something that limits their freedom to try on new identities and experiences.

Younger people feel disconnected from their future self, particularly if they feel too many decisions remain for their future self to come into focus, and may find it tougher to plan for the long-term as a result.

"It's hard to see yourself in the future. I've done so many different things that it's hard to predict the future because one thing leads to another."

"When you're 17 you can't see beyond six months. At 22, I'm starting to see three years out. My parents see 15 years out."

"A lot of what I see about investments is for 60-year olds. I need something more immediate – a 35-year old."

Investing and long-term planning are seen as inconsistent with early adulthood, as things that "lock you in" when you want to prioritize taking in new experiences and exploring new possibilities before you settle down.

"That's not for Anna now. That's for Anna later. For now, I want to feel more free."

"Today it feels like we have less responsibility. In my friend group, 30% are still living at home. I think that's why I feel, I'm young; I don't have to do that yet."

"This selfish period of time has lasted longer than I thought it would. I look at my peer group and we're not doing what my parents were doing in their 30s."

This bias towards the present is exacerbated by everyday inertia that makes it tough to take the first step.

"In school I was a procrastinator because the system allowed me to succeed that way. People work well under deadlines. Investing is one of those things that can always be put off. If you were to tell me if you don't start tomorrow you won't have a retirement. I'd do that tomorrow."

"I know it's never too early to start saving, but I'm not doing it!"

"You just keep thinking I'll do it tomorrow."

While putting off investing may feel right in the moment, some older millennials are starting to realize these decisions have consequences that they didn't fully anticipate.

"When I was young I was a stupid kid. I wasn't thinking about saving. Now I wish I'd started investing when I was in my 20s and still had time on my side."

"At 25 I thought I'd come back from London and everything would fall into place. It's taken a lot longer than I thought. Everyone around me is moving on to those next steps. I don't regret the decision though. I'll always have those experiences."

"For a very long time I thought my income would increase so saving money would make sense. I thought only people with money saved money. As soon as I said 'my income will increase' I realized my lifestyle also increases."

BEHAVIOURAL IMPLICATIONS

Changing behaviour requires bridging the distance between one's present and future selves by highlighting the future consequences of current decisions (both positive and negative). "Future selves" that are closer in time (e.g., 35 rather than 65) may be easier to bridge to. Research shows that stimulating concrete as opposed to abstract thinking (e.g. presenting financial scenarios) can help increase confidence and provide a sense of control. It's also important to combat inertia by amplifying the benefits of taking action, minimizing the perceived cost and effort of taking action, and drawing attention to missed opportunities.

Insight #2 Millennials are deeply affected by their perceptions of where their peers are at. These social comparisons can serve as useful reference points as long as they are relevant and don't feel out of reach.

The varied composition of the Millennial generation means that peer social comparison can be tricky, leaving many in limbo.

"I can't compare myself to my friends who are married."

"My friend Lindsay lives at home for no cost. She can afford to be stupid. I can't."

"What's the average and how do I compare to the average? Maybe you're doing good, or not doing good. Show a scale by age."

Social comparisons can be a useful tool to validate current behaviours and identify potential alternatives.

"It would be interesting to see how other people with my same salary spend their money and invest it. Toronto Life has a neat piece that shows how different types of people prioritize things. It's nice to see what other people did."

"My boyfriend was a huge influence. He has always been very ambitious. He was working three jobs. I felt I had to catch up to be a good partner for him. He inspires me to be better with money."

Social comparisons can be demotivating if people feel they can't catch up or if it seems like no one else around them is succeeding either.

"I'm ashamed about being financially behind other people my age. I feel like I can never catch up."

"It's frustrating to look at people who have it all together."

"A lot of my friends have no savings because anything left from their paycheques goes to OSAP. This is very common."

It can also be difficult for people perceived to be at the top of the social hierarchy because they don't have peers from whom to get support.

"When I talk to my friends about saving they say 'don't even talk to me about that because I have so much debt.' I can't get advice from older friends for this reason."

"I'm the person my friends don't want to talk to about money because I'm doing better than them."

"It's hard when your friends are being reckless with money. I think I'm weak in the face of these temptations so it's good to know I've taken away the temptation with the automatic savings."

BEHAVIOURAL IMPLICATIONS

Millennials use social comparisons to determine how they're doing. Empowering comparisons show people with similar challenges pursuing creative alternatives that produce a desired result. It will also be important to use comparisons to highlight behaviours that produce deferred benefits that, unlike purchasing a home or travelling, aren't visible in the present.

Insight #3 Investing feels overwhelming if there is no clear way to take the first step. Paralysis over having too many options is exacerbated by industry practices that evoke skepticism and undermine trust.

It's difficult to find an appropriate starting point when you "don't know what you don't know."

"There is information out there but it goes back to taking too much effort. If you made this my full-time job I'd be happy to do the research but there's always something else to do."

"There are so many options – it's the paradox of choice. I find the whole thing overwhelming so I don't like to think about it."

"I'm afraid to ask questions. I don't want to feel stupid."

The challenge of finding a comfortable starting point is exacerbated by skepticism about traditional financial channels and processes.

"Filling out a form online to book an appointment doesn't feel like the right way to find someone you can trust."

"I don't trust the banks as the best option but I don't trust myself to do it alone. I know there are other options out there but I don't know where to find them. A friend who's out for my best interests would be the best. The bank has no incentive to really help me out – just commissions."

"When you talk to professionals about your money there's some skepticism about what they get from it. They get free rein to play with your money but it doesn't impact them. It impacts you."

Sources that aren't trying to sell a product or service are seen as more trustworthy.

"I haven't been comfortable with investing for most of my twenties. Then I came across a [post by a financial blogger]. It was about the magic of compound interest. He showed the simple math of how you get to \$2 million to fund retirement. After seeing this I decided it was worth looking into."

"A knowledgeable friend who's looking out for my best interest would be best."

"I don't know if I'm doing the right things. It would be helpful to have a message saying if you managed it differently, different results would be possible."

Objective, personalized feedback, conveyed in small, manageable steps, can nudge people toward adopting investing as a habit.

"Paying off my student loan was my biggest accomplishment. I drew a thermometer on my bulletin board and I'd colour it in when I paid some off. I never felt so much freedom as the day I paid off that loan. Setting short-term goals helps you get to the longer term goal. It's too far out and motivation is lacking. You need the steps to get there. It also helps visualizing what it will be like when you get there even if it's far."

"You start a habit when you have negative reinforcement to make you try something different. Once you start, it's about having feedback to show you that it's working."

"A message saying I'd missed out would make me look at other options. It's good when they push information like that to you. To ask the question I have to think about how to ask the question."

"It would motivate me to have 'future me' paint a picture of what I've created for her. Also with scenarios. She breaks it down for me what I need to save now as a percentage of my salary for future me to have this great life in the future."

BEHAVIOURAL IMPLICATIONS

The complexity of navigating the investing journey for the first time imposes a heavy cognitive load that overwhelms nearly everyone who doesn't have a trusted guide. We can reduce the cognitive load by orienting the user with objective information targeted to their circumstances and providing opportunities to get started with small commitments.

Insight #4 Experimentation can build confidence in the investing process. In the absence of opportunities to test and learn, those with little or no knowledge of investing fear loss to a degree that is a barrier to investing.

The fear of loss is a substantial barrier to investing. Those to whom investing is foreign feel this fear particularly acutely.

"I've always been terrible at math so I don't understand investing. It's scary to put money out there. I'm afraid I'll lose it."

"I got a loan for school with a plan to invest the money. The money just sat there and I returned it at the end of the year. You just keep thinking I'll do it tomorrow. I had a bit of the education but it was a scary leap. Conceptually, I understand investing from school. There's a big difference between knowing and doing."

With investing knowledge comes clearer expectations about market fluctuations.

"I learned about risk in high school. They had a stock market game where I lost \$4K in one day. That's not for me. Now I put it in low risk mutual funds."

"Investing is very well understood by math. I looked at the math, it agrees with the math and that gives me confidence."

"Investing is a balance between risk and return. People need to be mentally prepared when there is a loss and know not to panic."

Traditional education won't fill this knowledge gap. Millennials need to experience it for themselves to believe it.

"I'd like to take some risk but not in a stupid way. Just a bit of money to see what happens – an amount I could afford to lose."

"It would be great if there was a simulation so you could try it out without losing."

"Test putting money into something to see what happens. Show me how I do. Send me a message telling me how my money could have done if I'd taken a certain action; and then tell me how to do something about it. And then combine it with a future message about how I could act then – but not too far into the future so I won't be able to see it."

BEHAVIOURAL IMPLICATIONS

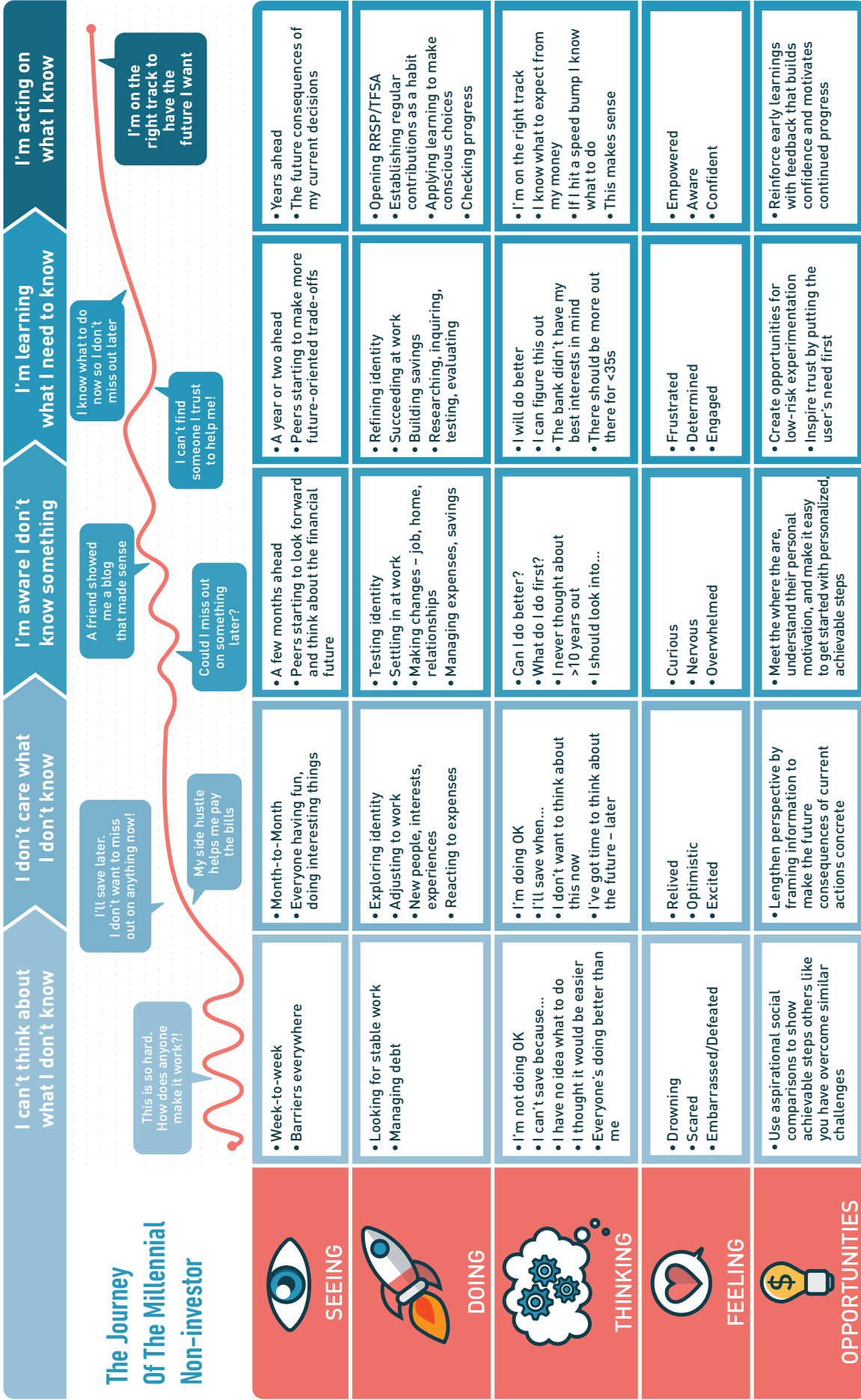
People fear what they don't know. We can reduce loss aversion by demonstrating how the specific investment decision being contemplated would perform under different market conditions and time periods. It is essential to convey this information in concrete terms that can be easily understood by the user and then be clear about what feedback will be available to gauge success.

The Millennial Investing Journey

Our qualitative research also informed our development of a “journey map” that reflects the experience of a typical millennial non-investor. A journey map helps tell a story through the lens of the user by compiling what a typical user sees, does, thinks and feels as they progress through various phases of an experience. Expressing the user experience in this way helps us better understand where the start and end of the experience are from the user’s point of view, and helps us break this experience into distinct emotional and cognitive phases. This exercise helps us locate barriers experienced by users on this journey and identify opportunities for intervention to help users along this journey.

Because our user is a millennial non-investor, our journey starts where many of them are: immersed in everyday life, struggling to define themselves and just trying to make it all work. It progresses through their initial awareness – and rejection – of investing, to early efforts to learn and, finally, to a place of confidence that habits are in place to continue moving in the right direction.





THE JOURNEY OF THE MILLENNIAL NON-INVESTOR Figure 3:

From Insights to Design Principles

Design principles are meant to start conversations within and among a variety of stakeholders about how we can develop and refine programs, products, and services in ways that better meet the needs of users – in our case, Ontario millennials.

Because our design principles – which draw from the insights gained from our conversations with millennials, as well as the literature and industry review described above, are meant to be used by a variety of stakeholders in the financial ecosystem, from investment firms, to organizations delivering investor education, to fintech startups, each of whom has expertise in their respective areas, we have deliberately made these design principles open-ended rather than prescriptive. In short, you will not find any ready-made solutions or silver bullets here.

You will, however, find examples illustrating how these design principles could be applied in different contexts. But these examples are illustrative, not prescriptive: firms and organizations will be best placed to develop solutions that apply these principles, provided that they focus on users and place their needs first in the design process.

We believe that the six design principles described below will help stakeholders develop tools to help motivate and enable users to make progress on their journey towards understanding and engaging with investing. While certain principles may be more impactful in certain contexts and channels than others, all should help address barriers in the journey traversed by first-time investors.

Principle #1

Prompt millennials to identify their own unique motivation for investing and validate that motivation in a non-judgmental way.

Behaviour change requires motivation. For millennials to make financial trade-offs between the present and the future, they need to know what's in it for them. Instead of making assumptions about millennials' motivations or the life milestones they have in mind, help individuals identify their own motivation and engage from there. When millennials discover their motivation and can see investing as relevant to them they are more likely to engage.

HOW THIS MAY SHOW UP IN PRACTICE:

Imagine an open-ended goal-setting conversation:

What matters to you? What are some things you're excited about for the future? Everything counts: Travel, family, experiences, career, volunteering, a home, a wedding, kids. Having a good handle on what you want makes it easier to take the steps you need to take to make it happen.

Imagine starting with motivations, and not products, first:



Meet Sarah. Sarah currently works as a bartender, but she's a lawyer at heart. She invests because she wants to go back to school.



Meet Samir. Samir just got his dream job at a startup. He invests so he can start his own business. He's not sure when, but when the time comes he wants to be ready.



Meet Jo. Jo is a marketing assistant. She doesn't know what's next for her, but she's investing so she doesn't miss out when she figures it out.

What would you invest for? [Click here to get started.](#)

Principle #2

Meet millennials where they are by providing personalized, achievable steps that make it easy to get started.

Getting started with investing is a barrier from the start for millennials in part because the sheer number of options to assess is overwhelming. While most believe they should be doing something, the absence of a clear starting point – or even a starting point for what to research – triggers choice overload and becomes a substantial barrier. Use available information to propose a starting point that makes sense to the user, narrowing the scope of questions and decisions and combatting choice overload.

HOW THIS MAY SHOW UP IN PRACTICE:

Imagine a different conversation associated with a fresh start:

Congratulations on the new job! It's always exciting to start a new chapter of your career. It's also a great time to start thinking about your financial future. One simple thing you can do is start putting away a small percentage of your salary for your future. You may not know what the future looks like, but regardless, it will probably go better if you've got some type of nest egg. Most people your age start with 5-10% of their after-tax income. 5% would only be \$3.50/day. That would add up to \$xx in five years!

You can always start at the low end and increase your savings over time. We can help with a program that automatically increases the amount by 1% each year.

Imagine guidance that arrives just when it's needed:

Congratulations on paying off your student loan! Most people shift that monthly loan payment into longer-term savings within the first year. How about selecting a date in the future when you think you'll be ready to do that? We can set it up so it automatically starts then:

- **1 month from now**
- **3 months from now**
- **6 months from now**

Don't worry, we'll give you a heads up the month before so you're ready.

Principle #3

Lengthen perspective by making the future consequences of current actions feel more concrete.

Many millennials find the future difficult to picture, in part because they are working through the challenges of emerging adulthood. Draw attention to longer-term considerations with scenarios that motivate millennials to invest by connecting the impact of current decisions to their future consequences.

HOW THIS MAY SHOW UP IN PRACTICE:

Imagine messaging that helps the user understand their future:

Hey. It's your future self again. A few months ago I asked you to start putting away a few bucks a day for our future. Just \$5 a day will grow to well over \$10,000 in five years. Think about all the cool stuff we could do with that. Can we get started now? If you're still not ready, when would be a good time to think about this? Click here to put a time in your calendar.

Imagine showing the cumulative benefit of small habits:

Congratulations on paying off your student loan. That's a huge accomplishment! Now that you've paid off the debt your "past" self saddled you with, how about setting up your "future" self in style? If you put that \$200/mo you're used to paying OSAP into an RRSP, in five years your future self will have almost \$14,000! Plus, your current self will get a tax refund of about \$750 each year to have some fun with.

Principle #4

Curate aspirational social comparisons to promote achievable investing habits.

Millennials are highly influenced by their perceptions of what their peers are doing and the results derived from those actions.

But these perceptions can be based on flawed or incomplete information. Data points that are tangible and visible – such as buying a home or travelling – are easier to find than comparisons relating to the less visible activities that contribute to longer-term financial well-being.

Social comparisons that provide meaningful reference points about what could be possible if they chose to engage in these activities can increase the motivation to engage in long-term investing. But the use of social comparisons comes with an important caveat: these comparisons can be motivating only if they feel achievable and relevant to an individual's circumstances: if one feels incapable of measuring up, these comparisons can be discouraging.

HOW THIS MAY SHOW UP IN PRACTICE:

Imagine encouragement that shows how others like you are making it work:

We noticed that you opted out of the feature that your chequing account offers to round up your purchases and invest the difference. The vast majority of our customers find this program a great way to save. In fact, people in your age group saved an average of \$xxx last year from small round-ups that they didn't even miss. Based on your transaction history, you would have \$xxx if you'd stuck with the program. Would you like to re-enroll?

Imagine insights about trade-offs people like you have chosen:

Congratulations on that raise! You've got some exciting choices ahead about what to do with that money. Here are some comparisons of the choices other people your age with similar income have made. Most of them are saving 5% of what they earn. If you took half of that raise you'd get there.

Principle #5 Allow for low risk experimentation, reinforcing early learnings with feedback that builds confidence and motivates continued progress.

Investing is a lifelong journey comprised of many small steps. Once they get started, millennials crave regular reinforcement that the steps they're taking are having the expected result. Personalized guidance about what the next steps should be can also help. Low-risk opportunities to learn by doing can create feedback loops that build confidence in past decisions while charting a new, but familiar, course.

HOW THIS MAY SHOW UP IN PRACTICE:

Imagine receiving personalized suggestions about how to put money to work:

You've done a great job of socking away \$5,000 in your TFSA. Have you ever wondered if your money could be working harder for you? That money is currently earning an interest rate of only 1%. That means in 5 years it will grow to \$5,255. There are other investments you could buy that could help you grow your money faster.

The TSX Composite Index has grown an average of 5% over each of the past 5 years. Some years it has been up more than that; other years it has dropped. Overall though, your \$5,000 invested in that market would have grown to \$6,381.

Not sure about locking up all of your savings for the long-term? How about starting with half?

Imagine education about the risks and rewards of specific scenarios:

There are a few different things you could do to get the money in your TFSA working harder for you. It depends on what you're comfortable with and when you want to use your money. Here's what the ups and downs of different options would have looked like over the past five years:



Want to see what it looked like over other time periods?
[Click here.](#)

Want to understand how we got these numbers?
[Click here.](#)

Principle #6

Inspire trust by putting the user's needs first.

It came through clearly in the interviews that millennials are very focused on getting advice from people who have their best interests in mind. As a result, they're drawn to those who aren't perceived as having anything to sell, such as family and friends, and bloggers and authors. There was particular skepticism about business models where an individual is perceived to be deriving some type of personal benefit from a sale: for example, branch staff were generally perceived to be less objective and transparent than robo-advisors. While the subject of how to inspire trust merits extensive further study, our research highlighted four key ingredients:

- other people I respect have had good experiences with this person/product/service/channel;
- fits me and my goals, not predefined yardsticks based on outmoded assumptions of saving and investing;
- frames information in a way that gives me real-time insight into how I'm doing and what I can do to course correct; and
- is transparent about how your business makes money, what I get for your services, and how your interests are aligned with mine.

HOW THIS COULD SHOW UP IN PRACTICE:

Imagine an objective rating of investing options based on alignment with user needs:

The Trust Score: Objective criteria to help you assess the trustworthiness of the products and services provided by this firm.

Average trust rating of other users	★ ★ ★ ☆ ☆
Personalizes service to your needs	★ ★ ☆ ☆ ☆
Provides useful, actionable insights	★ ★ ★ ★ ★
Demonstrates alignment with your interests	★ ★ ★ ☆ ☆

Imagine if workplace pension sponsors took a more active role in investor education:

Your pension savings are currently worth \$xx. That's up \$xx from last quarter.

You're currently putting in 2% of your salary (\$xx per month) and we're matching 50% of that. You're eligible for 50% matching for up to 4% of your salary so you're leaving \$xx of free money on the table every month. [Click here to increase your contribution.](#)

Plan rules don't allow you to take this money out until retirement, but at the rate you're currently saving, that should give you an income of about \$xx per month between ages 65-90. Did you know if you saved just an extra \$xx per month this income would increase by \$xx? [Click here to see how.](#)

Conclusion

Nudging people to create new habits is no small task. Research indicates that millennials are doing a lot right—from saving regularly to paying off debt—but that there are significant barriers that make it harder for millennials to decide whether investing is right for them and to act on their intentions.

The aim of design principles is to start a conversation about how programs, products and services might be delivered in more human-centred ways that will better engage millennials in investing for their future. They are intended to inspire stakeholders in all parts of the investing ecosystem – from investment firms, to organizations delivering investor education, to fintech startups and others – to test new models, observe how their users respond and continue to learn and adapt.

While we believe the design principles that have emerged from this project offer a starting point that is particularly relevant to engaging millennials in investing, this approach has implications far beyond the millennial cohort. Saving rates of Ontarians have been declining steadily for a generation and the behavioural foundation of our design principles should be equally relevant to promoting investing among other cohorts.

In keeping with the OSC Investor Office's priority of publishing research that provides insights into retail investor knowledge, attitudes and behaviours, this study is intended to stimulate dialogue about how a more human-centred approach might be used to improve the financial well-being of Ontario millennials. Its findings offer evidence to help inform the OSC's policies and programs, and point to potential avenues for further research, including through developing prototypes of and testing initiatives that reflect the design principles outlined in this report.



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1.5 Notices from the Office of the Secretary

1.5.1 Klaas Vantooten

**FOR IMMEDIATE RELEASE
July 4, 2018**

**KLAAS VANTOOREN,
File No. 2018-29**

TORONTO – The Commission issued its Reasons and Decision and an Order pursuant to Subsections 127(1) and 127(10) of the *Securities Act* in the above noted matter.

A copy of the Reasons and Decision and the Order dated July 3, 2018 are available at www.osc.gov.on.ca.

OFFICE OF THE SECRETARY
GRACE KNAKOWSKI
SECRETARY TO THE COMMISSION

For media inquiries:

media_inquiries@osc.gov.on.ca

For investor inquiries:

OSC Contact Centre
416-593-8314
1-877-785-1555 (Toll Free)

1.5.2 Caldwell Investment Management Ltd.

**FOR IMMEDIATE RELEASE
July 5, 2018**

**CALDWELL INVESTMENT MANAGEMENT LTD.,
File No. 2018-36**

TORONTO – The Commission issued an Order in the above named matter.

A copy of the Order dated July 5, 2018 is available at www.osc.gov.on.ca.

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GRACE KNAKOWSKI
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1.5.3 Money Gate Mortgage Investment Corporation

**FOR IMMEDIATE RELEASE
July 6, 2018**

**MONEY GATE MORTGAGE
INVESTMENT CORPORATION,
MONEY GATE CORP.,
MORTEZA KATEBIAN and
PAYAM KATEBIAN,
File No. 2017-79**

TORONTO – The Commission issued an Order in the above named matter.

A copy of the Order dated July 6, 2018 is available at www.osc.gov.on.ca.

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GRACE KNAKOWSKI
SECRETARY TO THE COMMISSION

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1-877-785-1555 (Toll Free)

1.5.4 Martin Bernholtz

**FOR IMMEDIATE RELEASE
July 6, 2018**

**MARTIN BERNHOLTZ,
File No. 2018-16**

TORONTO – The Commission issued an Order in the above named matter.

A copy of the Order dated July 6, 2018 is available at www.osc.gov.on.ca.

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GRACE KNAKOWSKI
SECRETARY TO THE COMMISSION

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media_inquiries@osc.gov.on.ca

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1-877-785-1555 (Toll Free)

1.5.5 Sino-Forest Corporation et al.

FOR IMMEDIATE RELEASE
July 11, 2018

**SINO-FOREST CORPORATION,
ALLEN CHAN,
ALBERT IP,
ALFRED C.T. HUNG,
GEORGE HO,
SIMON YEUNG and
DAVID HORSLEY**

TORONTO – The Commission issued its Reasons and Decision on Sanctions and Costs and an Order in the above noted matter.

A copy of the Reasons and Decision on Sanctions and Costs and the Order dated July 9, 2018 are available at www.osc.gov.on.ca.

OFFICE OF THE SECRETARY
GRACE KNAKOWSKI
SECRETARY TO THE COMMISSION

For media inquiries:

media_inquiries@osc.gov.on.ca

For investor inquiries:

OSC Contact Centre
416-593-8314
1-877-785-1555 (Toll Free)

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Chapter 2

Decisions, Orders and Rulings

2.1 Decisions

2.1.1 TD Prime Services LLC

Headnote

U.S. registered broker dealer exempted from dealer registration under paragraph 25(1) of the Act for provision of prime brokerage services – relief limited to trades in Canadian securities for institutional permitted clients – relief is subject to sunset clause.

Applicable Legislative Provisions

Statutes Cited

Securities Act, R.S.O. 1990, c. S.5, as am., ss. 25(1), 74(1).

Instruments Cited

Multilateral Instrument 11-102 Passport System, s. 4.7.

National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations, s. 8.5, 8.18, 8.21.

July 6, 2018

IN THE MATTER OF
THE SECURITIES LEGISLATION OF
ONTARIO
(the Jurisdiction)

AND

IN THE MATTER OF
THE PROCESS FOR EXEMPTIVE RELIEF APPLICATIONS
IN MULTIPLE JURISDICTIONS

AND

IN THE MATTER OF
TD PRIME SERVICES LLC
(the Filer)

DECISION

Background

The principal regulator in the Jurisdiction has received an application from the Filer (the **Application**) for a decision under the securities legislation of the Jurisdiction (the **Legislation**) exempting the Filer from dealer registration under section 25(1) of the *Securities Act* (Ontario) (the **Act**) in respect of Prime Services (as defined below) relating to securities of Canadian issuers and that are provided in Canada to Institutional Permitted Clients (as defined below) (the **Exemption Sought**).

Under the Process for Exemptive Relief Applications in Multiple Jurisdictions (for a passport application):

- (a) the Ontario Securities Commission (**OSC**) is the principal regulator for this Application, and
- (b) the Filer has provided notice that section 4.7(1) of Multilateral Instrument 11-102 *Passport System* (**MI 11-102**) is intended to be relied upon in each of the other provinces and territories of Canada in which the Filer relies on the exemption found in section 8.18 [*International dealer*] of National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* (**NI 31-103**) other than the province of Alberta (the **Passport Jurisdictions** and together with the Jurisdiction, the **Jurisdictions**).

Interpretation

Terms defined in National Instrument 14-101 *Definitions* and MI 11-102 have the same meaning if used in this decision, unless otherwise defined.

For the purposes of this decision, the following term has the following meaning:

“Institutional Permitted Client” shall mean a “permitted client” as defined in section 1.1 of NI 31-103, except for: (a) an individual, (b) a person or company acting on behalf of a managed account of an individual, (c) a person or company referred to in paragraph (p) of that definition unless that person or company qualifies as an Institutional Permitted Client under another paragraph of that definition, or (d) a person or company referred to in paragraph (q) of that definition unless that person or company has net assets of at least \$100 million as shown on its most recently prepared financial statements or qualifies as an Institutional Permitted Client under another paragraph of that definition.

Representations

This Decision is based on the following facts represented by the Filer:

1. The Filer is a limited liability company formed under the laws of the State of Delaware. The head office of the Filer is located at 31 West 52nd Street, New York, NY 10019. The Filer is a wholly-owned subsidiary of Toronto Dominion Holdings (U.S.A.), Inc. Toronto Dominion Holdings (U.S.A.), Inc. is a wholly-owned subsidiary of TD Group US Holdings LLC. TD Group US Holdings LLC is a wholly-owned subsidiary of The Toronto-Dominion Bank.
2. The Filer is registered as a broker-dealer with the United States (**U.S.**) Securities and Exchange Commission (**SEC**) and is a member of the Financial Industry Regulatory Authority (**FINRA**). This registration and membership permits the Filer to provide Prime Services (as defined below) in the U.S.
3. The Filer is a member of the New York Stock Exchange (**NYSE**), the Nasdaq Stock Market and certain other securities exchanges in the United States.
4. The Filer is engaged in the business of holding and financing customer accounts and clearing and settling transactions. The Filer lends money, extends credit and provides margin to clients. The Filer does not make proprietary investments.
5. The Filer relies on section 8.18 [*International dealer*] of NI 31-103 to provide trade execution services in respect of “foreign securities” as defined in that section with Canadian resident “permitted clients” as defined in NI 31-103.
6. “Prime Services” provided by the Filer principally consist of the following: (a) settlement, clearing and custody of trades; (b) financing of long inventory; (c) lending and delivering securities on behalf of a client pursuant to a margin agreement to facilitate client short sales; (d) securities borrowing pursuant to a securities lending agreement; and (e) reporting of positions, margin and other balances and activity. For greater clarity, Prime Services do not include execution of trades in securities.
7. The Filer provides or wishes to provide Prime Services in the Jurisdictions to Institutional Permitted Clients (the **Prime Services Clients**) in respect of securities of Canadian and non-Canadian issuers.
8. In the case of a Prime Services Client that is an investment fund subject to Part 6 of National Instrument 81-102 *Investment Funds (NI 81-102)*, the custodianship requirements in Part 6 of NI 81-102 would only permit the Filer to provide the Prime Services to the investment fund as a sub-custodian of the investment fund in respect of portfolio assets held outside Canada, and the Filer would provide Prime Services to an investment fund in compliance with the securities laws applicable to the investment fund, including Part 6 of NI 81-102 and the custody requirements set out in NI 31-103.
9. Prime Services Clients seek Prime Services from the Filer in order to separate the execution of a trade from the clearing, settlement, custody and financing of a trade. This allows the Prime Services Client to use many executing brokers, without maintaining an active, ongoing custody account with each executing broker. It also allows the Prime Services Client to consolidate settlement, clearing, custody and financing of securities in an account with the Filer.
10. The Filer’s Prime Services Clients directly select their executing brokers. The Filer does not require its Prime Services Clients to use specific executing brokers through which Prime Services Clients must execute trades. Prime Services Clients send trade orders to the executing broker who carries out the trade. The executing broker will be an appropriately registered dealer or a person or company relying on an exemption from dealer registration that permits such executing broker to execute the trade for Prime Services Clients.

11. The Filer provides the Prime Services after the execution of the trade, but any commitment to provide financing or to lend or borrow securities in relation to a trade may be made prior to the execution of the trade. The executing broker will communicate the trade details to a Prime Services Client and the Filer or the Filer's clearing agent, as applicable. A Prime Services Client will also communicate the trade details to the Filer. For trades executed on a Canadian marketplace, the Filer will typically need to clear and settle the trades through a participant of the Canadian depository, clearing and settlement hub, CDS Clearing and Depository Services Inc.
12. The Filer exchanges money or securities and holds the money or securities in an account for each Prime Services Client. If the Filer is clearing and settling the trade through a clearing agent, the Filer's clearing agent exchanges money or securities and holds the money or securities in an omnibus account for the Filer, which in turn maintains a record of the position held for the Prime Services Client on its books and records.
13. On or following settlement, the Filer provides the other Prime Services as set out in paragraph 6.
14. The Filer enters into written agreements with all of its Prime Services Clients for the provision of Prime Services.
15. On September 2, 2011, in CSA Staff Notice 31-327 *Broker-Dealer Registration in the Exempt Market Dealer Category*, the Canadian Securities Administrators (**CSA**) stated that they had concerns with firms applying for registration in and with firms registered in the category of exempt market dealer (**EMD**) who were carrying on brokerage activities, including trading listed securities. In light of these regulatory concerns, firms applying for registration were instead registered in the restricted dealer category with terms and conditions. The interim restricted dealer registrations were time limited and were intended to allow applicants to engage in limited activities while the CSA reviewed the activities of firms registered in the category of EMD and restricted dealer.
16. On February 7, 2013, in CSA Staff Notice 31-333 *Follow-up to Broker-Dealer Registration in the Exempt Market Dealer Category*, the CSA stated that they would be publishing amendments to NI 31-103 that would prohibit exempt market dealers from trading in a security if the security is listed, quoted or traded on a marketplace and if the trade in the security does not require reliance on a further exemption from the prospectus requirement (the **Rule Amendments**). The CSA stated that restricted dealers conducting brokerage activities in accordance with the terms and conditions of their registration would have their registration and any related exemptive relief extended to the date the Rule Amendments came into effect.
17. The Rule Amendments came into effect on July 11, 2015. Since the implementation of the Rule Amendments, only investment dealers that are dealer members of the Investment Industry Regulatory Organization of Canada (**IIROC**) or firms relying on an applicable exemption from the dealer registration requirement are permitted to engage in trading in a security if the security is listed, quoted or traded on a marketplace and if the trade in the security does not require reliance on a further exemption from the prospectus requirement in the Jurisdictions.
18. The Filer is relying on the "international dealer exemption" under section 8.18 [*International dealer*] of NI 31-103 in all of the Canadian provinces and territories to provide Prime Services in respect of "foreign securities" as defined in section 8.18 of NI 31-103.
19. The Filer is not registered under NI 31-103, is in the business of trading, and, in the absence of the Exemption Sought, cannot provide the full range of Prime Services in the Jurisdictions in respect of securities of Canadian issuers without registration, except as permitted under section 8.5 [*Trades through or to a registered dealer*], under the exemptions found in paragraphs (a), (b) and (f) of subsection 8.18(2) [*International dealer*], and under section 8.21 [*Specified debt*] of NI 31-103.
20. The Filer is subject to regulatory capital requirements under the *Securities Exchange Act of 1934* (the **1934 Act**), specifically SEC Rule 15c3-1 *Net Capital Requirements for Brokers or Dealers* (**SEC Rule 15c3-1**) and SEC Rule 17a-5 *Reports to be Made by Certain Brokers and Dealers* (**SEC Rule 17a-5**).
21. SEC Rule 15c3-1 requires that the Filer account for any guarantee of debt of a third party in calculating its excess net capital when a loss is probable and the amount can be reasonably estimated. Accordingly, the Filer will, in the event that it provides a guarantee of any debt of a third party, take a deduction from net capital when both of the preceding conditions exist. The Filer does not guarantee the debt of any third party.
22. SEC Rule 15c3-1 is designed to provide protections that are substantially similar to the protections provided by the capital formula requirements and specifically risk adjusted capital to which dealer members of IIROC are subject, and the Filer is in compliance with SEC Rule 15c3-1 and is in compliance in all material respects with SEC Rule 17a-5. If the Filer's net capital declines below the minimum amount required, the Filer is required to notify the SEC and FINRA pursuant to SEC Rule 17a-11 *Notification Provisions for Brokers and Dealers* (**SEC Rule 17a-11**). The SEC and FINRA have the responsibility to provide oversight over the Filer's compliance with SEC Rule 15c3-1 and SEC Rule 17a-5.

23. The Filer is required to prepare and file a financial report, which includes Form X-17a-5 (the **FOCUS Report**) which is the financial and operational report containing a net capital calculation, and a compliance report annually with the SEC and FINRA pursuant to SEC Rule 17a-5(d). The FOCUS Report provides a more comprehensive description of the business activities of the Filer, and more accurately reflects those activities including client lending activity, than would be provided by Form 31-103F1 *Calculation of Excess Working Capital (Form 31-103F1)*. The net capital requirements computed using methods prescribed by SEC Rule 15c3-1 are based on all assets and liabilities on the books and records of a broker-dealer whereas Form 31-103F1 is a calculation of excess working capital, which is a computation based primarily on the current assets and current liabilities on the books and records of the dealer. The Filer is up-to-date in its submissions of annual reports under SEC Rule 17a-5(d), including the FOCUS Report.
24. The Filer is subject to regulations of the Board of Governors of the U.S.A. Federal Reserve Board (**FRB**), the SEC, and FINRA regarding the lending of money, extension of credit and provision of margin to clients (the **U.S. Margin Regulations**) that provide protections that are substantially similar to the protections provided by the requirements regarding the lending of money, extension of credit and provision of margin to clients to which dealer members of IIROC are subject. In particular, the Filer is subject to the margin requirements imposed by the FRB, including Regulation T, and under applicable SEC rules and under FINRA Rule 4210. The Filer is in compliance in all material respects with applicable U.S. Margin Regulations.
25. The Filer holds customer assets in accordance with Rule 15c3-3 of the 1934 Act, as amended (**SEC Rule 15c3-3**). SEC Rule 15c3-3 requires the Filer to segregate and keep segregated all “fully-paid securities” and “excess margin securities” (as such terms are defined in SEC Rule 15c3-3) of its customers from its proprietary assets. In addition to the segregation of customers’ securities, SEC Rule 15c3-3 requires the Filer to deposit an amount of cash or qualified government securities determined in accordance with a reserve formula set forth in SEC Rule 15c3-3 in an account entitled “Special Reserve Account for the Exclusive Benefit of Customers” of the Filer at separate banks and/or custodians. The combination of segregated securities and cash reserve are designed to ensure that the Filer has sufficient assets to cover all net equity claims of its customers and provide protections that are substantially similar to the protections provided by the requirements dealer members of IIROC are subject. If the Filer fails to make an appropriate deposit, the Filer is required to notify the SEC and FINRA pursuant to SEC Rule 15c3-3(i). The Filer is in material compliance with the possession and control requirements of SEC Rule 15c3-3.
26. The Filer is a member of the Securities Investors Protection Corporation (**SIPC**) and, subject to the eligibility criteria of SIPC, Prime Services Clients’ assets held by the Filer are insured by SIPC against loss due to insolvency.
27. The Filer is in compliance in all material respects with U.S. securities laws. The Filer is not in default of securities legislation in any jurisdiction in Canada.
28. The Filer submits that the Exemption Sought would not be prejudicial to the public interest because:
 - (a) the Filer is regulated as a broker-dealer under the securities legislation of the U.S., and is subject to the requirements listed in paragraphs 20 to 26;
 - (b) the availability of and access to Prime Services is important to Canadian institutional investors who are active participants in the international marketplace;
 - (c) the Filer will provide Prime Services in the Jurisdictions only to Institutional Permitted Clients;
 - (d) the OSC has entered into a memorandum of understanding with the SEC regarding mutual assistance in the supervision and oversight of regulated entities that operate on a cross-border basis in the U.S. and Canada; and
 - (e) the OSC has entered into a memorandum of understanding with FINRA to provide a formal basis for the exchange of regulatory information and investigative assistance.
29. At the request of the Alberta Securities Commission, the Filer will not rely on subsection 4.7(1) of MI 11-102 to passport this decision into Alberta.
30. The Filer is a “market participant” as defined under subsection 1(1) of the Act. As a market participant, among other requirements, the Filer is required to comply with the record keeping and provision of information provisions under section 19 of the Act, which include the requirement to keep such books, records and other documents as are necessary for the proper recording of business transactions and financial affairs and the transactions executed on behalf of others and to deliver such records to the OSC if required.

Decision

The principal regulator is satisfied that the decision meets the test set out in the Legislation for the principal regulator to make the decision.

The decision of the principal regulator under the Legislation is that the Exemption Sought is granted so long as the Filer:

- (a) has its head office or principal place of business in the U.S.;
- (b) is registered as a broker-dealer under the securities legislation of the U.S., which permits the Filer to provide the Prime Services in the U.S.;
- (c) is a member of FINRA;
- (d) is a member of SIPC;
- (e) is subject to requirements over regulatory capital, lending of money, extension of credit, provision of margin, financial reporting to the SEC and FINRA, and segregation and custody of assets which provide protections that are substantially similar to the protections provided by the rules to which dealer members of IIROC are subject;
- (f) limits its provision of Prime Services in the Jurisdictions in respect of securities of Canadian issuers to Institutional Permitted Clients;
- (g) does not execute trades in securities of Canadian issuers with or for Prime Services Clients, except as permitted under applicable Canadian securities laws;
- (h) does not require its Prime Services Clients to use specific executing brokers through which Prime Services Clients must execute trades;
- (i) notifies the OSC of any regulatory action initiated after the date of this decision in respect of the Filer, or any predecessors or specified affiliates of the Filer, by completing and filing with the OSC Appendix "A" hereto within ten days of the commencement of any such action; provided that the Filer may also satisfy this condition by filing with the OSC within ten days of the date of this decision a notice making reference to and incorporating by reference the disclosure made by the Filer pursuant to U.S. federal securities laws that is identified in the FINRA BrokerCheck system, and any updates to such disclosure that may be made from time to time, and by providing notification, in a manner reasonably acceptable to the Director, of any filing of a Form BD "Regulatory Action Disclosure Reporting Page";
- (j) submits the financial report and compliance report as described in SEC Rule 17a-5(d) to the OSC on an annual basis, at the same time such reports are filed with the SEC and FINRA;
- (k) submits audited financial statements to the OSC on an annual basis, within 90 days of the Filer's financial year end;
- (l) submits to the OSC immediately a copy of any notice filed under SEC Rule 17a-11 or under SEC Rule 15c3-3(i) with the SEC and FINRA;
- (m) complies with the filing and fee payment requirements applicable to a registrant under OSC Rule 13-502 Fees;
- (n) files in an electronic and searchable format with the OSC such reports as to any or all of its trading activities in Canada as the OSC may, upon notice, require from time to time; and
- (o) pays the increased compliance and case assessment costs of the principal regulator due to the Filer's location outside Ontario, including, as required, the reasonable cost of hiring a third party to perform a compliance review on behalf of the principal regulator.

Decisions, Orders and Rulings

This decision shall expire five years after the date hereof.

This decision may be amended by the OSC from time to time upon prior written notice to the Filer.

“Mark J. Sandler”
Commissioner
Ontario Securities Commission

“Poonam Puri”
Commissioner
Ontario Securities Commission

APPENDIX "A"

NOTICE OF REGULATORY ACTION

1. Has the firm, or any predecessors or specified affiliates¹ of the firm entered into a settlement agreement with any financial services regulator, securities or derivatives exchange, SRO or similar agreement with any financial services regulator, securities or derivatives exchange, SRO or similar organization?

Yes _____ No _____

If yes, provide the following information for each settlement agreement:

Name of entity
Regulator/organization
Date of settlement (yyyy/mm/dd)
Details of settlement
Jurisdiction

2. Has any financial services regulator, securities or derivatives exchange, SRO or similar organization:

	Yes	No
a) Determined that the firm, or any predecessors or specified affiliates of the firm violated any securities regulations or any rules of a securities or derivatives exchange, SRO or similar organization?	___	___
(b) Determined that the firm, or any predecessors or specified affiliates of the firm made a false statement or omission?	___	___
(c) Issued a warning or requested an undertaking by the firm, or any predecessors or specified affiliates of the firm?	___	___
(d) Suspended or terminated any registration, licensing or membership of the firm, or any predecessors or specified affiliates of the firm?	___	___
(e) Imposed terms or conditions on any registration or membership of the firm, or predecessors or specified affiliates of the firm?	___	___
(f) Conducted a proceeding or investigation involving the firm, or any predecessors or specified affiliates of the firm?	___	___
(g) Issued an order (other than an exemption order) or a sanction to the firm, or any predecessors or specified affiliates of the firm for securities or derivatives-related activity (e.g. cease trade order)?	___	___

If yes, provide the following information for each action:

Name of entity	
Type of action	
Regulator/organization	
Date of action (yyyy/mm/dd)	Reason for action
Jurisdiction	

¹ In this Appendix, the term "specified affiliate" has the meaning ascribed to that term in Form 33-109F6 to National Instrument 33-109 Registration Information.

Decisions, Orders and Rulings

3. Is the firm aware of any ongoing investigation of which the firm or any of its specified affiliates is the subject?

Yes _____ No _____

If yes, provide the following information for each investigation:

Name of entity
Reason or purpose of investigation
Regulator/organization
Date investigation commenced (yyyy/mm/dd)
Jurisdiction

Name of firm:
Name of firm's authorized signing officer or partner
Title of firm's authorized signing officer or partner
Signature
Date (yyyy/mm/dd)

Witness

The witness must be a lawyer, notary public or commissioner of oaths.

Name of witness
Title of witness
Signature
Date (yyyy/mm/dd)

This form is to be submitted through the Ontario Securities Commission's Electronic Filing Portal:

<https://www.osc.gov.on.ca/filings>

2.2 Orders

2.2.1 Klaas Vantooten – ss. 127(1), 127(10)

FILE NO.: 2018-29

IN THE MATTER OF
KLAAS VANTOOREN

Robert P. Hutchison, Commissioner and Chair of the Panel

July 3, 2018

ORDER

Subsections 127(1) and 127(10) of the
Securities Act, RSO 1990, c S.5

WHEREAS the Ontario Securities Commission (the **Commission**) held a hearing, in writing, to consider a request by Staff of the Commission (Staff) for an order imposing sanctions against Klaas Vantooten (**Vantooten**) pursuant to subsections 127(1) and 127(10) of the *Securities Act*, RSO 1990, c S.5 (the **Act**);

ON READING the Settlement Agreement and Undertaking between Vantooten and the Alberta Securities Commission dated December 19, 2017 (the **Settlement Agreement**) and on reading the materials filed by Staff, Vantooten not having filed any materials, although properly served;

IT IS ORDERED THAT:

1. pursuant to paragraph 2 of subsection 127(1) of the Act, trading in securities or derivatives by Vantooten cease until December 19, 2027, except that this Order does not preclude Vantooten from trading in securities or derivatives through a registrant (who has first been given a copy of the Settlement Agreement, and a copy of this Order), in accounts maintained with that registrant for the benefit of one or more of himself and members of his immediate family, being Vantooten's spouse and dependent children;
2. pursuant to paragraph 2.1 of subsection 127(1) of the Act, the acquisition of any securities by Vantooten cease until December 19, 2027, except that this Order does not preclude Vantooten from purchasing securities through a registrant (who has first been given a copy of the Settlement Agreement, and a copy of this Order), in accounts maintained with that registrant for the benefit of one or more of himself and members of his immediate family, being Vantooten's spouse and dependent children;
3. pursuant to paragraph 3 of subsection 127(1) of the Act, any exemptions contained in Ontario securities law do not apply to Vantooten until December 19, 2027;

4. pursuant to paragraphs 7 and 8.1 of subsection 127(1) of the Act, Vantooten resign any positions that he holds as a director or officer of any issuer or registrant;
5. pursuant to paragraphs 8 and 8.2 of subsection 127(1) of the Act, Vantooten is prohibited until December 19, 2027 from becoming or acting as a director or officer of any issuer or registrant; and
6. pursuant to paragraph 8.5 of subsection 127(1) of the Act, Vantooten is prohibited until December 19, 2027 from becoming or acting as a registrant or promoter.

"Robert P. Hutchison"

2.2.2 Caldwell Investment Management Ltd. – ss. 127(1) and (2), 127.1

FILE NO.: 2018-36

**IN THE MATTER OF
CALDWELL INVESTMENT MANAGEMENT LTD.**

Robert P. Hutchison, Commissioner and Chair of the Panel

July 5, 2018

ORDER
(Subsections 127(1) and (2) and
Section 127.1 of the
Securities Act, RSO 1990, c S.5)

WHEREAS on July 3, 2018, the Ontario Securities Commission (**Commission**) held a hearing at the offices of the Commission, located at 20 Queen Street West, 17th Floor, Toronto, Ontario;

ON HEARING the submissions of the representatives for Staff of the Commission (**Staff**) and for Caldwell Investment Management Ltd. (**Caldwell**), including that on July 3, 2018 Staff disclosed to Caldwell non-privileged, relevant documents and things in the possession or control of Staff (**Staff's Disclosure**);

IT IS ORDERED THAT:

1. Caldwell shall serve and file a motion, if any, regarding Staff's Disclosure or seeking disclosure of additional documents by no later than October 5, 2018;
2. Staff shall file and serve a witness list, and serve a summary of each witnesses' anticipated evidence on Caldwell, and indicate any intention to call any expert witnesses by no later than October 11, 2018; and
3. The Second Attendance in this matter is scheduled for October 18, 2018 at 10:00 a.m., or on such other date and time as may be agreed by the parties and set by the Office of the Secretary.

"Robert P. Hutchison"

2.2.3 Primero Mining Corp.

Headnote

National Policy 11-206 Process for Cease to be a Reporting Issuer Applications – The issuer ceased to be a reporting issuer under securities legislation.

Applicable Legislative Provisions

Securities Act, R.S.O. 1990, c. S.5, as am., s. 1(10)(a)(ii).

July 6, 2018

**IN THE MATTER OF
THE SECURITIES LEGISLATION OF
ONTARIO
(the Jurisdiction)**

AND

**IN THE MATTER OF
THE PROCESS FOR CEASE TO BE A
REPORTING ISSUER APPLICATIONS**

AND

**IN THE MATTER OF
PRIMERO MINING CORP.
(the Filer)**

ORDER

Background

The principal regulator in the Jurisdiction has received an application from the Filer for an order under the securities legislation of the Jurisdiction of the principal regulator (the Legislation) that the Filer has ceased to be a reporting issuer in all jurisdictions of Canada in which it is a reporting issuer (the Order Sought).

Under the Process for Cease to be a Reporting Issuer Applications (for a passport application):

- (a) the Ontario Securities Commission is the principal regulator for this application; and
- (b) the Filer has provided notice that subsection 4C.5(1) of Multilateral Instrument 11-102 *Passport System* (MI 11-102) is intended to be relied upon in British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Québec, New Brunswick, Nova Scotia, Prince Edward Island, Newfoundland, North West Territories, Yukon and Nunavut.

Interpretation

Terms defined in National Instrument 14-101 *Definitions* and MI 11-102 have the same meaning if used in this order, unless otherwise defined.

Representations

This order is based on the following facts represented by the Filer:

1. the Filer is not an OTC reporting issuer under Multilateral Instrument 51-105 *Issuers Quoted in the U.S. Over-the-Counter Markets*;
2. the outstanding securities of the Filer, including debt securities, are beneficially owned, directly or indirectly, by fewer than 15 securityholders in each of the jurisdictions of Canada and fewer than 51 securityholders in total worldwide;
3. no securities of the Filer, including debt securities, are traded in Canada or another country on a marketplace as defined in National Instrument 21-101 *Marketplace Operation* or any other facility for bringing together buyers and sellers of securities where trading data is publicly reported;
4. the Filer is applying for an order that the Filer has ceased to be a reporting issuer in all of the jurisdictions of Canada in which it is a reporting issuer; and
5. the Filer is not in default of securities legislation in any jurisdiction.

Order

The principal regulator is satisfied that the order meets the test set out in the Legislation for the Decision Maker to make the order.

The decision of the principal regulator under the Legislation is that the Order Sought is granted.

“Sonny Randhawa”
Deputy Director, Corporate Finance
Ontario Securities Commission

2.2.4 Aveda Transportation and Energy Services Inc.

Headnote

National Policy 11-206 Process for Cease to be a Reporting Issuer Applications – The issuer ceases to be a reporting issuer under securities legislation.

Applicable Legislative Provisions

Securities Act, R.S.O. 1990, c. S.5, as am., s. 1(10)(a)(ii).

Citation: Re Aveda Transportation and Energy Services Inc., 2018 ABASC 105

July 5, 2018

**IN THE MATTER OF
THE SECURITIES LEGISLATION OF
ALBERTA AND ONTARIO
(the Jurisdictions)**

AND

**IN THE MATTER OF
THE PROCESS FOR CEASE TO BE A
REPORTING ISSUER APPLICATIONS**

AND

**IN THE MATTER OF
AVEDA TRANSPORTATION AND
ENERGY SERVICES INC.
(the Filer)**

ORDER

Background

The securities regulatory authority or regulator in each of the Jurisdictions (the **Decision Maker**) has received an application from the Filer for an order under the securities legislation of the Jurisdictions (the **Legislation**) that the Filer has ceased to be a reporting issuer in all jurisdictions of Canada in which it is a reporting issuer (the **Order Sought**).

Under the Process for Cease to be a Reporting Issuer Applications (for a dual application):

- (a) the Alberta Securities Commission is the principal regulator for this application;
- (b) the Filer has provided notice that subsection 4C.5(1) of Multilateral Instrument 11-102 *Passport System (MI 11-102)* is intended to be relied upon in British Columbia and Manitoba; and
- (c) this order is the order of the principal regulator and evidences the decision of the securities regulatory authority or regulator in Ontario.

Interpretation

Terms defined in National Instrument 14-101 *Definitions* or MI 11-102 have the same meaning if used in this order, unless otherwise defined herein.

Representations

This order is based on the following facts represented by the Filer:

1. the Filer is not an OTC reporting issuer under Multilateral Instrument 51-105 *Issuers Quoted in the U.S. Over-the-Counter Markets*;
2. the outstanding securities of the Filer, including debt securities, are beneficially owned, directly or indirectly, by fewer than 15 securityholders in each of the jurisdictions of Canada and fewer than 51 securityholders in total worldwide;
3. no securities of the Filer, including debt securities, are traded in Canada or another country on a marketplace as defined in National Instrument 21-101 *Marketplace Operation* or any other facility for bringing together buyers and sellers of securities where trading data is publicly reported;
4. the Filer is applying for an order that the Filer has ceased to be a reporting issuer in all of the jurisdictions of Canada in which it is a reporting issuer; and
5. the Filer is not in default of securities legislation in any jurisdiction.

Order

Each of the Decision Makers is satisfied that the order meets the test set out in the Legislation for the Decision Maker to make the order.

The decision of the Decision Makers under the Legislation is that the Order Sought is granted.

“Tom Graham”
Director
Corporate Finance

2.2.5 Money Gate Mortgage Investment Corporation

File No.: 2017-79

**IN THE MATTER OF
MONEY GATE MORTGAGE
INVESTMENT CORPORATION,
MONEY GATE CORP.,
MORTEZA KATEBIAN and
PAYAM KATEBIAN**

Timothy Moseley, Vice-Chair and Chair of the Panel

July 6, 2018

ORDER

WHEREAS on July 6, 2018, the Ontario Securities Commission held a hearing at the offices of the Commission, located at 20 Queen Street West, 17th Floor, Toronto, Ontario for the third attendance in this matter;

ON HEARING the submissions of the representatives for Staff of the Commission (**Staff**) and for Money Gate Mortgage Investment Corporation, Money Gate Corp., Morteza Katebian and Payam Katebian (the **Respondents**);

IT IS ORDERED THAT:

1. Staff's motion regarding the summary of expected evidence of Payam Katebian shall be heard on August 8, 2018 at 10:00 a.m. and the parties shall adhere to the following timeline for the delivery of motion materials:
 - a. Staff shall serve and file moving motion materials no later than July 13, 2018, but shall not be required to file initial written submissions;
 - b. the Respondents shall serve and file responding motion materials, including written submissions, no later than July 23, 2018; and
 - c. Staff shall serve and file reply materials, including written submissions, by August 3, 2018;
2. by no later than October 3, 2018, all parties shall serve every other party with a hearing brief containing copies of the documents, and identifying the other things, that the party intends to produce or enter as evidence at the merits hearing;
3. all parties shall provide to the Registrar a copy of an index to the party's hearing brief no later than October 9, 2018;
4. the Final Interlocutory Attendance shall be heard on October 16, 2018 at 10:00 a.m.;

5. all parties shall provide to the Registrar the electronic documents that the party intends to rely on or enter as evidence at the merits hearing, along with an Index File, no later than November 6, 2018; and
6. the hearing on the merits shall be heard on November 15, 16, 19, 26, 28, and 29, 2018, December 3, 4, 5, 6, 10, 12, 13, 14, 17, 18, 19, and 20, 2018 and January 7, 9, 10 and 11, 2019, commencing at 10:00 a.m. on each scheduled day, or such other dates and times as provided by the Office of the Secretary and agreed to by the parties.

“Timothy Moseley”

2.2.6 Martin Bernholtz – ss. 127(1), 127.1

FILE NO.: 2018-16

**IN THE MATTER OF
MARTIN BERNHOLTZ**

Mark J. Sandler, Commissioner and Chair of the Panel

July 6, 2018

ORDER

Subsection 127(1) and
Section 127.1 of the
Securities Act, RSO 1990, c S.5

WHEREAS on July 6, 2018, the Ontario Securities Commission held a hearing at the offices of the Commission, located at 20 Queen Street West, 17th Floor, Toronto, Ontario;

ON HEARING the submissions of the representatives for Staff of the Commission and for Martin Bernholtz;

IT IS ORDERED THAT:

1. The Respondent shall file and serve a witness list, and serve a summary of each witness's anticipated evidence on Staff, and indicate any intention to call an expert witness by no later than August 13, 2018;
2. Each party shall file a completed copy of the E-hearing Checklist for the Hearing on the Merits by no later than August 31, 2018; and
3. The Third Attendance in this matter is scheduled for September 11, 2018 at 9:30 a.m., or on such other date and time as may be agreed by the parties and set by the Office of the Secretary.

“Mark J. Sandler”

2.2.7 Paladin Energy Ltd. – s. 144

Headnote

Application by an issuer for a revocation of a cease trade order issued by the Commission – cease trade order issued because the issuer failed to file certain continuous disclosure materials required by Ontario securities law – defaults subsequently remedied by bringing continuous disclosure filings up-to-date.

Statutes Cited

Securities Act, R.S.O. 1990, c. S.5, as am., s. 144.

IN THE MATTER OF
THE SECURITIES ACT,
R.S.O. 1990, c. S.5, AS AMENDED
(the Act)

AND

IN THE MATTER OF
PALADIN ENERGY LTD.

ORDER
(Section 144)

WHEREAS the securities of Paladin Energy Ltd. (the **Applicant**) are subject to a cease trade order made by the Ontario Securities Commission (the **Commission**) on October 4, 2017 (the **Cease Trade Order**), directing that trading and acquiring, whether direct or indirect, cease in respect of each security of the Applicant;

AND WHEREAS the Cease Trade Order was made on the basis that the Applicant was in default of certain filing requirements under Ontario securities law as described in the Cease Trade Order;

AND WHEREAS the Applicant has applied to the Commission under section 144 of the Act to revoke the Cease Trade Order;

AND UPON the Applicant representing to the Commission that:

1. The Applicant is a company incorporated under the laws of Western Australia on September 24, 1993.
2. The Applicant's head office is located at Level 4, 502 Hay Street, Subiaco, Western Australia, 6008.
3. The Applicant is an Australian-based global uranium producer and developer with two fully built mines in Africa and a portfolio of development assets in Australia and North America.
4. The Applicant is a reporting issuer under the Act and is not a reporting issuer or equivalent in any other jurisdiction in Canada.

5. The Applicant's authorized capital consists of an unlimited number of common shares (the **Common Shares**) of which 1,712,843,812 Common Shares are issued and outstanding. On January 25, 2018 the Applicant issued US\$115M worth of secured notes that mature on January 25, 2023 (the "**2023 Secured Notes**"). Other than the Common Shares and the 2023 Secured Notes, the Applicant does not have any other securities, including debt securities, outstanding.
6. Since June 2016, the Applicant has been a "Designated Foreign Issuer" as such term is defined under National Instrument 71-102 *Continuous Disclosure and Other Exemptions Related to Foreign Issuers*.
7. The Applicant was a dual Australian Stock Exchange (**ASX**) and Toronto Stock Exchange (**TSX**) listed company. Throughout 2016 and 2017, the Applicant attempted to restructure large portions of its debt that were coming due in 2017. Due to the Applicant's ongoing financial difficulties, the Common Shares were suspended from trading from the TSX on May 18, 2017. On June 12, 2017, the Applicant requested voluntary suspension in trading of its Common Shares on the ASX. On July 3, 2017, the Applicant's directors appointed KPMG as joint and several administrators of the Applicant under the *Corporations Act 2001* (Australia), and on August 10, 2017, the Applicant's Common Shares were delisted from the TSX.
8. The Cease Trade Order was issued on October 4, 2017, due to the failure of the Applicant to file its annual information form, audited financial statements, related management's discussion and analysis and officer certifications (the **2017 Annual Filings**) for the year ended June 30, 2017. Under the *Corporations Act 2001* (Australia), companies in administration are given automatic extensions to file audited financial statements;
9. Subsequent to the issuance of the Cease Trade Order, the Applicant also failed to file, within the timeframe stipulated by the applicable legislation, interim financial statements, interim management's discussion and analysis, and certificates required by NI 52-109 for the period ended September 30, 2017 (the **Interim Filings**).
10. On February 2, 2018 the Company announced the effectuation of a deed of company arrangement dated December 8, 2017 and the completion of a restructuring (the **DOCA**). In accordance with the DOCA, 98% of the outstanding Company shares were transferred to creditors and other investors and 2% of the outstanding Paladin common shares were retained by shareholders. On February 16, 2018, the Company's common shares were reinstated for trading on the ASX. The Applicant does not plan on applying to have its common shares re-listed for trading on the TSX.

11. As of May 29, 2018, there were 29 shareholders (2.05% of all shareholders) domiciled in Canada holding 125,249 Common Shares (0.03% of all Common Shares issued and outstanding).
12. Since the issuance of the Cease Trade Order, the Applicant has filed the following on the System of Electronic Document Analysis and Retrieval (**SEDAR**):
 - (a) the 2017 Annual Filings; and
 - (b) the Australian equivalent of the Interim Filings for the three month period ended September 30, 2017 (a **Quarterly Activities Report**);
 - (c) the required interim financial statements, MD&A and certificates for the six month period ended December 31, 2017; and
 - (d) numerous other documents and news releases that had been lodged with the ASX since the date of the Cease Trade Order.
13. The Applicant held an annual general meeting on March 27, 2018.
14. The Applicant has paid all outstanding participation fees, filing fees and late fees owing and has filed all forms associated with such payments in Ontario.
15. The Applicant is (i) up-to-date with all of its other continuous disclosure obligations; (ii) not in default of any of its obligations under the Cease Trade Order; and (iii) not in default of any requirements under the Act or the rules and regulations made pursuant thereto.
16. The Applicant is not currently considering, nor is it involved in any discussions related to, a reverse take-over, merger, amalgamation or other form of combination or transaction similar to any of the foregoing.
17. Since the issuance of the Cease Trade Orders, there have not been any material changes in the business, operations or affairs of the Applicant that have not been disclosed to the public.
18. The Applicant's issuer profile on SEDAR, and issuer profile supplement on the System for Electronic Disclosure by Insiders, are current and accurate.
19. Upon revocation of the Cease Trade Order, the Applicant will issue a news release announcing the revocation of the Cease Trade Order.

AND UPON considering the Application and the recommendation of the staff of the Commission;

AND UPON the Director being satisfied that it would not be prejudicial to the public interest to revoke the Cease Trade Order;

IT IS ORDERED, pursuant to section 144 of the Act, that the Cease Trade Order is revoked.

DATED at Toronto this 29th day of June, 2018.

"Jo-Anne Matear"
Manager, Corporate Finance
Ontario Securities Commission

2.2.8 Sino-Forest Corporation et al. – ss. 127(1), 127.1

**IN THE MATTER OF
SINO-FOREST CORPORATION,
ALLEN CHAN,
ALBERT IP,
ALFRED C.T. HUNG,
GEORGE HO,
SIMON YEUNG and
DAVID HORSLEY**

D. Grant Vingoe, Vice-Chair and Chair of the Panel
Deborah Leckman, Commissioner
Garnet W. Fenn, Commissioner

July 9, 2018

ORDER
(Subsection 127(1) and
Section 127.1 of the
Securities Act, RSO 1990, c S.5)

WHEREAS on November 20 and 27, 2017, January 18, 2018, and March 26 and 27, 2018, the Ontario Securities Commission held a hearing at the offices of the Commission, located at 20 Queen Street West, 17th Floor, Toronto, Ontario, to consider the sanctions and costs that the Commission should impose on the respondents as a result of the findings in the Commission's Reasons and Decision on the merits, issued on July 13, 2017;

AND WHEREAS On March 14, 2018, the Superior Court of Justice in *Borelli, in his capacity as trustee of the SFC Litigation Trust v. Chan*, ordered Mr. Chan to pay US \$2,627,478,000 (**SFC Litigation Trust Order**);

AND WHEREAS a class action brought by Sino-Forest shareholders before the Superior Court of Justice in *The Trustees of the Labourers' Pension Fund of Central and Eastern Canada et al v Sino-Forest Corp et al (Shareholders Class Action)* is pending against Mr. Chan;

ON READING the materials filed by, and hearing the submissions of the representatives of the respondents and Staff of the Commission and no one appearing for Sino-Forest Corporation;

IT IS ORDERED THAT:

1. Pursuant to paragraph 2 of subsection 127(1) of the *Securities Act*, RSO 1990, c S.5 (the **Act**), Mr. Chan, Mr. Ip, Mr. Hung, Mr. Ho and Mr. Yeung are permanently prohibited from trading in any securities;
2. Pursuant to paragraph 2.1 of subsection 127(1) of the Act, Mr. Chan, Mr. Ip, Mr. Hung, Mr. Ho and Mr. Yeung are permanently prohibited from acquiring any securities;
3. Pursuant to paragraph 3 of subsection 127(1) of the Act, all exemptions contained in Ontario securities

law shall not apply to Mr. Chan, Mr. Ip, Mr. Hung, Mr. Ho and Mr. Yeung permanently;

4. Pursuant to paragraphs 7, 8.1 and 8.3 of subsection 127(1) of the Act, Mr. Chan, Mr. Ip, Mr. Hung, Mr. Ho and Mr. Yeung shall resign from any positions they hold as a director or officer of any issuer, registrant or investment fund manager;
5. Pursuant to paragraphs 8, 8.2 and 8.4 of subsection 127(1) of the Act, Mr. Chan, Mr. Ip, Mr. Hung, Mr. Ho and Mr. Yeung are permanently prohibited from becoming or acting as a director or officer of any issuer, registrant or investment fund manager;
6. Pursuant to paragraph 8.5 of subsection 127(1) of the Act, Mr. Chan, Mr. Ip, Mr. Hung, Mr. Ho and Mr. Yeung are permanently prohibited from becoming or acting as a registrant, an investment fund manager or a promoter;
7. Pursuant to paragraph 9 of subsection 127(1) of the Act:
 - a. Mr. Chan shall pay an administrative penalty of \$5,000,000;
 - b. Mr. Ip shall pay an administrative penalty of \$2,650,000;
 - c. Mr. Hung shall pay an administrative penalty of \$2,000,000;
 - d. Mr. Ho shall pay an administrative penalty of \$2,000,000; and
 - e. Mr. Yeung shall pay an administrative penalty of \$1,000;
8. Pursuant to paragraph 10 of subsection 127(1) of the Act:
 - a. Mr. Chan shall disgorge to the Commission \$60,288,253;
 - b. Mr. Ip shall disgorge to the Commission \$1,859,710;
 - c. Mr. Hung shall disgorge to the Commission \$1,286,373; and
 - d. Mr. Ho shall disgorge to the Commission \$1,214,883;
9. Each of the payments in paragraphs 7 and 8 is designated for allocation or use by the Commission in accordance with subclause 3.4(2)(b)(i) or (ii) of the Act;
10. Pursuant to section 127.1 of the Act, the respondents shall pay costs to the Commission of \$5,096,760, as follows:

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- a. Mr. Chan shall pay costs to the Commission of \$2,038,704;
 - b. Mr. Ip. shall pay costs to the Commission of \$1,529,028, for which he shall be jointly and severally liable with Mr. Chan;
 - c. Mr. Hung shall pay costs to the Commission of \$1,019,352, for which he shall be jointly and severally liable with Mr. Chan and Mr. Ip; and
 - d. Mr. Ho shall pay costs to the Commission of \$509,676, for which he shall be jointly and severally liable with Mr. Chan, Mr. Ip and Mr. Hung; and
11. Any payments made by Mr. Chan in respect of the SFC Litigation Trust Order or any final order in the Shareholders Class Action shall be credited against the disgorgement order against Mr. Chan in paragraph 8(a).

“D. Grant Vingo”

“Deborah Leckman”

“Garnet W. Fenn”

2.4 Rulings

2.4.1 NB Alternatives Advisers LLC et al. – ss. 74(1), 144(1)

Headnote

Previous decision revoked and replaced with a new decision – previous application was for relief from the investment fund manager registration requirement and the dealer registration requirement in order to provide up to 10 “senior-level” employees in Ontario employed by a subsidiary of a global investment conglomerate with certain investment opportunities alongside other employees of the conglomerate, globally – this decision increases the limit to 20 “senior-level” employees in Ontario employed by any entity in the conglomerate – the filers are related entities – each of the collective investment vehicles managed by the filers is or will be established outside of Canada – each filer’s head office or principal place of business is in the United States or United Kingdom, as applicable, and each filer is appropriately registered in the United States or United Kingdom, as applicable – distribution in Ontario is made to no more than 20 “Qualified Employees” in Ontario – the filers shall not receive any trade-based compensation – participation in an investment opportunity by a “Qualified Employee” is voluntary – relief from the investment fund manager registration requirement granted on conditions analogous to the permitted client exemption in section 4 of Multilateral Instrument 32-102 Registration Exemptions for Non-Resident Investment Fund Managers – relief from the dealer registration requirement granted on conditions analogous to the international dealer exemption in section 8.18 of National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations.

Applicable Legislative Provisions

Statutes Cited

Securities Act, R.S.O. 1990, c. S.5, as am., ss. 25(1), 25(4), 74(1), 144(1).

Instruments Cited

National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations, ss. 8.16, 8.18.
Multilateral Instrument 32-102 Registration Exemptions for Non-Resident Investment Fund Managers, ss. 1, 4.
National Instrument 45-106 Prospectus Exemptions, ss. 1.1, 2.3.

**IN THE MATTER OF
THE SECURITIES ACT,
R.S.O. 1990, c. S.5, AS AMENDED
(the Act)**

AND

**IN THE MATTER OF
NB ALTERNATIVES ADVISERS LLC (NBAA),
NEUBERGER BERMAN EUROPE LIMITED (NBEL),
NEUBERGER BERMAN INVESTMENT ADVISERS LLC (NBIA),
NEUBERGER BERMAN BD LLC
(NBBB, and together with NBAA, NBEL and NBIA, the Filers)**

**ORDER AND RULINGS
(Subsections 144(1) and 74(1) of the Act)**

Background

On November 11, 2016, the Ontario Securities Commission (the **Commission**) made a ruling pursuant to subsection 74(1) of the Act in *In the Matter of NB Alternatives Advisers LLC et al.* (2016), 39 OSCB 9436 (the **Previous Decision**) to exempt, on certain terms and conditions:

- (a) each of the Filers and NB Alternative Investment Management LLC (**NBAIM**) from the investment fund manager registration requirement in subsection 25(4) of the Act in respect of it acting as an investment fund manager for the NB Funds (as defined below) where all securities of the NB Funds distributed in Ontario are distributed:
 - i. under an exemption from the prospectus requirement to a Permitted Client (as defined below); or
 - ii. under the Accredited Investor Prospectus Exemption (as defined below) to up to 10 qualifying employees employed by NBBB (previously Neuberger Berman LLC); and

- (b) NBBB from the dealer registration requirement in subsection 25(1) of the Act in respect of it distributing securities of the NB Collective Investment Vehicles (as defined below) under the Accredited Investor Prospectus Exemption to up to 10 qualifying employees employed by NBBB.

After the Previous Decision was made, the NB Group (as defined below) underwent a reorganization. As part of that reorganization: (a) NBAIM was wound up; (b) all employees in Ontario that were previously employed by NBBB immediately before the reorganization became employees of NBIA; and (c) NBBB ceased to act as an investment fund manager for any NB Fund.

In November 2017, the NB Group acquired Neuberger Berman Breton Hill ULC (**NBBH**), which is headquartered in Toronto, Ontario.

The Filers have made an application (the **Application**) for exemptive relief that is substantially similar to that provided for in the Previous Decision, but modified so as to allow the Filers to provide up to 20 qualifying employees in Ontario that are employed by any NB Entity (as defined below) with the opportunity to participate in the same Investment Opportunities (as defined below) in which employees outside Ontario are offered the opportunity to participate.

Application

In the Application, the Filers have applied to the Commission for the following:

- (a) a ruling under subsection 74(1) of the Act that each NB Fund Manager (as defined below) is not subject to the investment fund manager registration requirement in subsection 25(4) of the Act (the **Investment Fund Manager Relief**) in respect of the NB Fund Manager acting as an investment fund manager for an NB Fund where all of the securities of the NB Fund distributed in Ontario have been distributed:
- i. under an exemption from the prospectus requirement to a Permitted Client; or
 - ii. under the Accredited Investor Prospectus Exemption to up to 20 Qualified Employees (as defined below); and
- (b) a ruling under subsection 74(1) of the Act that NBBB is not subject to the dealer registration requirement in subsection 25(1) of the Act (the **Dealer Relief**) in respect of it distributing securities of any NB Collective Investment Vehicle under the Accredited Investor Prospectus Exemption to up to 20 Qualified Employees in Ontario.

In the Application, the Filers have also applied for an order, under subsection 144(1) of the Act, to revoke the Previous Decision.

Interpretation

Terms defined in National Instrument 14-101 *Definitions* have the same meaning if used in these rulings and order (collectively, these Decisions), unless otherwise defined.

The following terms shall have the following meanings:

Accredited Investor Prospectus Exemption means the exemption from the prospectus requirement set out in section 2.3 [*accredited investor*] of NI 45-106;

CFTC means the U.S. Commodity Futures Trading Commission;

FCA means the Financial Conduct Authority in the United Kingdom;

FINRA means the Financial Industry Regulatory Authority, Inc. in the USA;

International Adviser Exemption means the exemption from the adviser registration requirement set out in section 8.26 [*international adviser*] of NI 31-103;

International Dealer Exemption means the exemption from the dealer registration requirement set out in section 8.18 [*international dealer*] of NI 31-103;

MI 32-102 means Multilateral Instrument 32-102 *Registration Exemptions for Non-Resident Investment Fund Managers*;

NB Collective Investment Vehicle means: (a) an NB Fund; or (b) a collective investment vehicle that does not meet the definition of an “investment fund” under applicable securities laws and that is advised by an NB Fund Manager;

NB Entity means any person or company in the NB Group;

NB Fund means an investment fund that is managed by an NB Fund Manager;

NB Fund Manager means NBAA, NBEL or NBIA;

NB Group means Neuberger Berman Group LLC and its subsidiaries, which include the Filers;

NFA means the National Futures Association in the USA;

NI 31-103 means National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations*;

NI 45-106 means National Instrument 45-106 *Prospectus Exemptions*;

Notice of Regulatory Action means the form attached as Appendix “B” to these Decisions;

OSC Rule 13-502 means Ontario Securities Commission Rule 13-502 *Fees*;

Permitted Client has the same meaning ascribed to that term in section 1 [*definitions*] of MI 32-102;

Permitted Client IFM Exemption means the exemption from the investment fund manager registration requirement set out in section 4 [*permitted clients*] of MI 32-102;

Submission to Jurisdiction and Appointment of Agent for Service means the form attached as Appendix “A” to these Decisions; and

USA means the United States of America.

Representations

These Decisions are based on the following facts represented by the Filers:

The Filers

1. Neuberger Berman Group LLC is a holding company, which through its subsidiaries, including the Filers, provides a broad range of global investment solutions (equity, fixed income and alternatives) to institutions and individuals through, among other things, customized separately managed accounts and collective investment vehicles (including non-redeemable investment funds).
2. Each of the Filers is registered as an “investment adviser” with the SEC.
3. None of the Filers is registered under the securities legislation of any jurisdiction of Canada.
4. None of the Filers is in default of securities legislation, commodity futures legislation or derivatives legislation of any jurisdiction of Canada.
5. Each Filer is in compliance in all material respects with the securities laws, commodity futures laws and derivatives laws of each jurisdiction in which its head office or principal place of business is located.
6. Except for NBIA, none of the Filers maintains a physical office in Canada.

NBIA

7. NBIA is a limited liability company formed pursuant to the laws of the State of Delaware. Its head office is located in New York, USA. NBIA is registered with the CTFC as a “commodity pool operator” and a “commodity trading advisor.” In these capacities, NBIA is a member of the NFA.

Decisions, Orders and Rulings

8. In Ontario, Québec and Newfoundland and Labrador, NBIA relies on the Permitted Client IFM Exemption. In each Canadian province, NBIA relies on the International Adviser Exemption.
9. NBIA currently maintains an office in Toronto, Ontario.

NBAA

10. NBAA is a limited liability company formed pursuant to the laws of the State of Delaware. Its head office is located in Dallas, USA. NBAA is registered as a “commodity pool operator” with the CFTC. In this capacity, NBAA is a member of the NFA.
11. In Ontario, NBAA relies on the Permitted Client IFM Exemption and the International Adviser Exemption. In Québec and Newfoundland and Labrador, NBAA relies on the Permitted Client IFM Exemption.

NBEL

12. NBEL is a company incorporated under the laws of England. Its head office is located in London, England. NBEL is authorised and regulated by the FCA. NBEL is authorized to carry on certain regulated activities in the United Kingdom including the following: (a) advising on investments, (b) arranging (bringing about) deals in investments, (c) arranging safeguarding and administration of assets, (d) dealing in investments as agent, (e) establishing, operating or winding up a regulated collective investment scheme, (f) establishing, operating or winding up an unregulated collective investment scheme, (g) making arrangements with a view to transact in investments, and (h) managing investments.
13. NBEL relies on the Permitted Client IFM Exemption in Ontario and Québec.

NBBD

14. NBBD is a limited liability company formed pursuant to the laws of the State of Delaware. Its head office is located in New York, USA. NBBD is registered as a “broker-dealer” with the SEC and applicable State regulators in the USA and is a member of FINRA. NBBD is also registered with the CFTC as a “commodity trading advisor” and “introducing broker.” In these capacities, NBBD is a member of the NFA.
15. In each Canadian province, NBBD relies on the International Dealer Exemption.

NB Collective Investment Vehicles

16. Each of the NB Fund Managers acts as the investment fund manager for one or more NB Funds.
17. Each NB Collective Investment Vehicle (including the NB Funds) is advised by an NB Fund Manager. NBBD generally acts as the placement agent for all NB Collective Investment Vehicles.
18. All of the NB Collective Investment Vehicles are or will be established in a jurisdiction outside of Canada.

Investment Opportunity and Qualified Employees

19. The NB Group provides certain eligible employees of NB Entities and their family members the opportunity to invest in NB Collective Investment Vehicles (each an **Investment Opportunity**). For each Investment Opportunity, the offering made to eligible employees is subject to the same terms as those applicable to other investors in the NB Collective Investment Vehicles, except that in an offering to eligible employees, a Filer may waive any management fees or incentive fees, or reduce performance allocations or minimum investment amounts.
20. Each Investment Opportunity is or will be offered solely to an employee of an NB Entity that has the job title of Managing Director or Senior Vice President, or that is a director of an NB Collective Investment Vehicle, an equity owner of an NB Entity or parent company of an NB Entity, or an employee of an NB Entity who has otherwise established to the satisfaction of the NB Entity that he or she has sufficient sophistication and assets to participate in the Investment Opportunity (each, a **Qualified Employee**).
21. Each Investment Opportunity is made to Qualified Employees globally, subject to the rules and regulations of the corresponding jurisdiction.
22. Participation in an Investment Opportunity by a Qualified Employee is voluntary, and Qualified Employees are not induced to participate in an Investment Opportunity by expectation of employment or continued employment.

23. To be eligible to invest in an NB Collective Investment Vehicle, a Qualified Employee must qualify as an “accredited investor” as defined in Regulation D under subsection 4(2) of the United States *Securities Act of 1933*, as amended. In the case of certain NB Collective Investment Vehicles, the Qualified Employee must also qualify as a “qualified purchaser” or “knowledgeable employee” under the United States *Investment Company Act of 1940*, as amended, or a “qualified client” under the United States *Investment Advisers Act of 1940*, as amended.
24. To be eligible to invest in an NB Collective Investment Vehicle, a Qualified Employee in Ontario must qualify as an “accredited investor” as such term is defined under section 1.1 [definitions] of NI 45-106.
25. As a registered broker-dealer and member of FINRA, NBBB will take reasonable steps to ensure that, before it makes a recommendation to or accepts an instruction from a Qualified Employee in Ontario to purchase a security of an NB Collective Investment Vehicle pursuant to an Investment Opportunity, the purchase is suitable for the Qualified Employee.
26. NBBB seeks to ensure that no Qualified Employee invests more than 10% of his or her liquid net worth in any single NB Collective Investment Vehicle.
27. No trade based fees or commission are charged to any Qualified Employee by any of the Filers, including NBBB, in connection with the Qualified Employee’s acquisition of any security of an NB Collective Investment Vehicle.
28. Before a Qualified Employee in Ontario acquires a security of an NB Collective Investment Vehicle under an Investment Opportunity, the Qualified Employee will be provided with an investor kit relating to the NB Collective Investment Vehicle. This investor kit will generally include: (a) a welcome letter; (b) the NB Collective Investment Vehicle’s prospectus or offering memorandum; (c) subscription agreement; (d) subscription instructions; (e) limited partnership agreement (if applicable); (f) the applicable Filer’s privacy policy; and (g) Part 2A of the applicable Filer’s Form ADV (which is the disclosure document included by the Filer in its application to register as an “investment adviser” with the SEC). In addition, Qualified Employees may be able to attend information sessions that are generally held in respect of each NB Collective Investment Vehicle at which the terms of the offering and the investment approach and process of the portfolio management team of the NB Collective Investment Vehicle are discussed. Moreover, if a Qualified Employee is not able to attend an information session, the session and any presentation materials may, subject to applicable law, be available to be viewed at any time by the Qualified Employee on the NB Group’s internal intranet website.

Why is the relief needed?

29. NBIA currently has three employees that are located in Toronto.
30. On November 1, 2017, the NB Group acquired NBBH. NBBH is registered under the Act as a portfolio manager, exempt market dealer, and investment fund manager. It is also registered under the *Commodity Futures Act (Ontario)* as a commodity trading manager. NBBH is an affiliate of the Filers and currently has 16 employees that are located in Toronto.
31. Currently, NBIA believes that only one of its employees in Toronto, and NBBH believes that only five of its employees in Toronto, meet the criteria to be Qualified Employees, and are, therefore, eligible to participate in the Investment Opportunities. NBIA and NBBH anticipate that, in the future, all employees in Ontario that meet the criteria to be Qualified Employees will also be invited to participate in the Investment Opportunities, in accordance with the terms of these Decisions.
32. The NB Fund Managers have each applied for the Investment Fund Manager Relief to reflect the fact that not all securities of the NB Funds distributed in Ontario were or will be distributed to Permitted Clients. Because not all securities of the NB Funds distributed in Ontario were or will be distributed to Permitted Clients, the NB Fund Managers cannot rely on the Permitted Client IFM Exemption in Ontario.
33. NBBB has applied for the Dealer Relief in connection with these distributions. NBBB cannot rely on the exemption set out in section 8.16 [plan administrator] of NI 31-103 because, amongst other things, the securities being issued pursuant to an Investment Opportunity are not being issued pursuant to a “plan of the issuer.” Furthermore, because the Qualified Employees do not all qualify as “permitted clients” under NI 31-103, NBBB is also not able to rely on the International Dealer Exemption.

Decisions

In the opinion of the Commission, it would not be prejudicial to the public interest to make the following order. The Commission is also satisfied that to make the following rulings would not be prejudicial to the public interest.

Order

It is ordered by the Commission that the Previous Decision is revoked.

Rulings

It is ruled by the Commission that the Investment Fund Manager Relief is granted to each NB Fund Manager, provided that:

1. The NB Fund Manager continues to be registered as an “investment adviser” with the SEC.
2. Where NBEL is the NB Fund Manager, it is authorised and regulated by the FCA.
3. The NB Fund Manager does not have its head office or principal place of business in any jurisdiction of Canada.
4. The NB Fund Manager remains incorporated, formed or created under the laws of a foreign jurisdiction.
5. The NB Fund is not a reporting issuer in any jurisdiction of Canada.
6. The NB Fund Manager has submitted to the Ontario Securities Commission a completed Submission to Jurisdiction and Appointment of Agent for Service.
7. Before acquiring any security of an NB Fund, each Permitted Client or Qualified Employee in Ontario has been notified in writing of all of the following with respect to the NB Fund Manager who acts as an investment fund manager of the NB Fund:
 - (a) the NB Fund Manager is not registered in Ontario to act as an investment fund manager;
 - (b) the foreign jurisdiction in which the head office or principal place of business of the NB Fund Manager is located;
 - (c) all or substantially all of the assets of the NB Fund Manager may be situated outside of Canada;
 - (d) there may be difficulty enforcing legal rights against the NB Fund Manager because of the above; and
 - (e) the name and address of the agent for service of process of the NB Fund Manager in Ontario.
8. If the NB Fund Manager has relied on the Investment Fund Manager Relief under this ruling to act as an investment fund manager for the NB Fund during the 12 month period preceding December 1 of a year, it must notify the Commission, by December 1 of that year, of the following:
 - (a) the fact that it relied upon the Investment Fund Manager Relief; and
 - (b) for all NB Funds for which it acts as an investment fund manager, the total assets under management expressed in Canadian dollars, attributable to securities beneficially owned by residents of Ontario as at the most recently completed month.
9. The NB Fund Manager files with the Commission, a completed Notice of Regulatory Action within 10 days of the date on which the Filer begins relying on the Investment Fund Manager Relief.
10. The NB Fund Manager notifies the Commission, of any change to the information previously submitted in the Notice of Regulatory Action within 10 days of the change.
11. The NB Fund Manager complies with the filing and fee payment requirements applicable to an unregistered investment fund manager under OSC Rule 13-502.

Decisions, Orders and Rulings

It is also ruled by the Commission that the Dealer Relief is granted to NBBB, provided that:

1. NBBB continues to be registered as a “broker-dealer” with the SEC and continues to be a member of FINRA.
2. NBBB does not receive any trade-based compensation for the distribution.
3. Participation in an Investment Opportunity by a Qualified Employee is voluntary, and the Qualified Employee will not be induced to participate in an Investment Opportunity by expectation of employment or continued employment.
4. NBBB takes reasonable steps to ensure that, before it makes a recommendation to or accepts an instruction from a Qualified Employee to buy a security of an NB Collective Investment Vehicle pursuant to an Investment Opportunity, the purchase is suitable for the Qualified Employee.
5. NBBB has submitted to the Commission a completed Submission to Jurisdiction and Appointment of Agent for Service.
6. NBBB has notified each Qualified Employee (to whom the distribution is made) in writing of all of the following:
 - (a) NBBB is not registered in Ontario to make the trade;
 - (b) the foreign jurisdiction in which the head office or principal place of business of NBBB is located;
 - (c) all or substantially all of the assets of NBBB may be situated outside of Canada;
 - (d) there may be difficulty enforcing legal rights against NBBB because of the above; and
 - (e) the name and address of the agent for service of process of NBBB in Ontario.
7. NBBB files with the Commission, a completed Notice of Regulatory Action within 10 days of the date on which NBBB begins relying on the Dealer Manager Relief.
8. NBBB notifies the Commission, of any change to the information previously submitted in the Notice of Regulatory Action within 10 days of the change.
9. If NBBB does not rely on the International Dealer Exemption, NBBB nevertheless complies with the filing and fee payment requirements that would be applicable to an unregistered exempt international firm under OSC Rule 13-502 as if it relied on the International Dealer Exemption.

Dated at Toronto, Ontario, this 6th of July, 2018

“Mark J. Sandler”
Commissioner
Ontario Securities Commission

“Poonam Puri”
Commissioner
Ontario Securities Commission

APPENDIX "A"

SUBMISSION TO JURISDICTION AND APPOINTMENT OF AGENT FOR SERVICE

INTERNATIONAL DEALER OR INTERNATIONAL ADVISER EXEMPTED FROM REGISTRATION UNDER THE
COMMODITY FUTURES ACT, ONTARIO

1. Name of person or company ("**International Firm**"):
2. If the International Firm was previously assigned an NRD number as a registered firm or an unregistered exempt international firm, provide the NRD number of the firm:
3. Jurisdiction of incorporation of the International Firm:
4. Head office address of the International Firm:
5. The name, e-mail address, phone number and fax number of the International Firm's individual(s) responsible for the supervisory procedure of the International Firm, its chief compliance officer, or equivalent.

Name:
E-mail address:
Phone:
Fax:
6. The International Firm is relying on an exemption order under section 38 or section 80 of the *Commodity Futures Act* (Ontario) that is similar to the following exemption in National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* (the "**Relief Order**"):

 Section 8.18 [*international dealer*]
 Section 8.26 [*international adviser*]
 Other [specify]:
7. Name of agent for service of process (the "**Agent for Service**"):
8. Address for service of process on the Agent for Service:
9. The International Firm designates and appoints the Agent for Service at the address stated above as its agent upon whom may be served a notice, pleading, subpoena, summons or other process in any action, investigation or administrative, criminal, quasi-criminal or other proceeding (a "**Proceeding**") arising out of or relating to or concerning the International Firm's activities in the local jurisdiction and irrevocably waives any right to raise as a defence in any such proceeding any alleged lack of jurisdiction to bring such Proceeding.
10. The International Firm irrevocably and unconditionally submits to the non-exclusive jurisdiction of the judicial, quasi-judicial and administrative tribunals of the local jurisdiction in any Proceeding arising out of or related to or concerning the International Firm's activities in the local jurisdiction.
11. Until 6 years after the International Firm ceases to rely on the Relief Order, the International Firm must submit to the regulator
 - a. a new Submission to Jurisdiction and Appointment of Agent for Service in this form no later than the 30th day before the date this Submission to Jurisdiction and Appointment of Agent for Service is terminated;
 - b. an amended Submission to Jurisdiction and Appointment of Agent for Service no later than the 30th day before any change in the name or above address of the Agent for Service;
 - c. a notice detailing a change to any information submitted in this form, other than the name or above address of the Agent for Service, no later than the 30th day after the change.
12. This Submission to Jurisdiction and Appointment of Agent for Service is governed by and construed in accordance with the laws of the local jurisdiction.

Decisions, Orders and Rulings

Dated: _____

(Signature of the International Firm or authorized signatory)

(Name of signatory)

(Title of signatory)

Acceptance

The undersigned accepts the appointment as Agent for Service of _____ [*Insert name of International Firm*] under the terms and conditions of the foregoing Submission to Jurisdiction and Appointment of Agent for Service.

Dated: _____

(Signature of the Agent for Service or authorized signatory)

(Name of signatory)

(Title of signatory)

This form, and notice of a change to any information submitted in this form, is to be submitted through the Ontario Securities Commission's Electronic Filing Portal:

<https://www.osc.gov.on.ca/filings>

APPENDIX "B"

NOTICE OF REGULATORY ACTION

1. Has the firm, or any predecessors or specified affiliates¹ of the firm entered into a settlement agreement with any financial services regulator, securities or derivatives exchange, SRO or similar agreement with any financial services regulator, securities or derivatives exchange, SRO or similar organization?

Yes _____ No _____

If yes, provide the following information for each settlement agreement:

Name of entity
Regulator/organization
Date of settlement (yyyy/mm/dd)
Details of settlement
Jurisdiction

2. Has any financial services regulator, securities or derivatives exchange, SRO or similar organization:

	Yes	No
(a) Determined that the firm, or any predecessors or specified affiliates of the firm violated any securities regulations or any rules of a securities or derivatives exchange, SRO or similar organization?	___	___
(b) Determined that the firm, or any predecessors or specified affiliates of the firm made a false statement or omission?	___	___
(c) Issued a warning or requested an undertaking by the firm, or any predecessors or specified affiliates of the firm?	___	___
(d) Suspended or terminated any registration, licensing or membership of the firm, or any predecessors or specified affiliates of the firm?	___	___
(e) Imposed terms or conditions on any registration or membership of the firm, or predecessors or specified affiliates of the firm?	___	___
(f) Conducted a proceeding or investigation involving the firm, or any predecessors or specified affiliates of the firm?	___	___
(g) Issued an order (other than an exemption order) or a sanction to the firm, or any predecessors or specified affiliates of the firm for securities or derivatives-related activity (e.g. cease trade order)?	___	___

If yes, provide the following information for each action:

Name of entity	
Type of action	
Regulator/organization	
Date of action (yyyy/mm/dd)	Reason for action
Jurisdiction	

¹ In this Appendix, the term "specified affiliate" has the meaning ascribed to that term in Form 33-109F6 to National Instrument 33-109 Registration Information.

Decisions, Orders and Rulings

3. Is the firm aware of any ongoing investigation of which the firm or any of its specified affiliates is the subject?

Yes _____ No _____

If yes, provide the following information for each investigation:

Name of entity
Reason or purpose of investigation
Regulator/organization
Date investigation commenced (yyyy/mm/dd)
Jurisdiction

Name of firm:
Name of firm's authorized signing officer or partner
Title of firm's authorized signing officer or partner
Signature
Date (yyyy/mm/dd)

Witness

The witness must be a lawyer, notary public or commissioner of oaths.

Name of witness
Title of witness
Signature
Date (yyyy/mm/dd)

This form is to be submitted through the Ontario Securities Commission's Electronic Filing Portal:

<https://www.osc.gov.on.ca/filings>

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Chapter 3

Reasons: Decisions, Orders and Rulings

3.1 OSC Decisions

3.1.1 Klaas Vantooten – ss. 127(1), 127(10)

IN THE MATTER OF
KLAAS VANTOOREN

REASONS AND DECISION
(Subsections 127(1) and 127(10) of the
Securities Act, RSO 1990, c S.5)

Citation: *Vantooten (Re)*, 2018 ONSEC 36
Date: July 3, 2018
File No.: 2018-29

Hearing: In Writing

Decision: July 3, 2018

Panel: Robert P. Hutchison Commissioner

Appearances: Christina Galbraith For Staff of the Commission

No hearing brief or written submissions were filed by or on behalf of Klaas Vantooten

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 - C. Misrepresentations in Breach of Subsection 92(4.1) of the Alberta Act
 - D. Illegal Distributions in Breach of Section 110 of the Alberta Act
 - E. Undertakings
- IV. ANALYSIS AND DECISION
 - A. Subsection 127(10) of the Act
 - B. Subsection 127(1) of the Act
 - C. Differences between the Agreed Sanctions and the Proposed Order
- V. CONCLUSION

REASONS AND DECISION

I. INTRODUCTION

- [1] Staff of the Ontario Securities Commission (**Staff** or the **Commission**) requests that an order be issued against Klaas Vantooten (the **Respondent**) pursuant to the inter-jurisdictional enforcement provisions in subsection 127(10) of the Act.¹ Subsection 127(10) authorizes the Commission to make orders in the public interest under subsection 127(1) where

¹ Ontario *Securities Act*, RSO 1990, s S.5 (the **Act**).

a person or company has agreed with another securities regulatory authority to be made subject to sanctions, conditions, restrictions or requirements.²

- [2] The agreed facts in a settlement agreement with another securities regulatory authority stand as a determination of fact for the purposes of the Commission's considerations under subsection 127(1) of the Act. This principle applies whether or not the settlement has been made the subject of an order by a securities regulatory authority. However, the Commission is not required to make an order that mirrors the sanctions provided for in a settlement agreement. Rather, the Commission's task is to determine whether, based on the agreed facts, the sanctions proposed by Staff would be in the public interest in Ontario.³
- [3] On December 19, 2017, the Respondent and staff of the Alberta Securities Commission (the **ASC**) entered into a Settlement Agreement and Undertaking (the **Settlement Agreement**). In the Settlement Agreement, the Respondent admitted that he breached sections of the *Alberta Securities Act*, RSA 2000, c S-4 (the **Alberta Act**) and agreed to be subject to various sanctions by way of undertaking. The agreed sanctions included ten-year market-access bans and a \$10,000 payment to the ASC.⁴

II. SERVICE AND PARTICIPATION

- [4] Staff brought this proceeding under the expedited procedure provided in Rule 11(3) of the Commission's *Rules of Procedure*.⁵
- [5] The Respondent was served with the Notice of Hearing issued on May 25, 2018, the Statement of Allegations dated May 23, 2018 and Staff's written submissions, hearing brief and brief of authorities.
- [6] Although served, the Respondent did not file a hearing brief or make any written submissions in this proceeding. The Commission may proceed in the absence of a party where that party has been given notice of the hearing.⁶

III. SETTLEMENT AGREEMENT AND UNDERTAKINGS

A. Background

- [7] The Respondent was a resident of Alberta and was registered under the Alberta Act as a dealing representative for certain exempt market dealer (**EMD**) firms.⁷
- [8] The Respondent was a director and shareholder (through his corporation The Premier Financial Group Inc.) of Alberta corporations Kredo Ranch Ltd. (**Kredo Ranch**), 1740247 Alberta Ltd. (operating as "Summersaults of Bentley" – **Summersaults**), and National Flood Strategies Corp. (**NFSC**).⁸

B. Unregistered Trading in Breach of Paragraph 75(1)(a) of the Alberta Act

- [9] As a dealing representative, the Respondent was only registered to sell securities approved for sale by the EMD firms. EMD-approved securities are subject to extensive due diligence and all sales must be reported to the chief compliance officer at the EMD firm.⁹
- [10] From 2012 to 2015, the Respondent raised approximately \$657,000 from at least eight investors by selling securities of Kredo Ranch, Summersaults and NFSC to Alberta residents. The Respondent's activities constituted trading under the Alberta Act.¹⁰ While all of the investors were the Respondent's clients through EMD firms, none of the securities sold by the Respondent were approved for sale by any of the EMD firms.¹¹

² Act, s 127(10)(5).

³ *JV Raleigh Superior Holdings Inc (Re)* (2013), 36 OSCB 4639, 2013 ONSEC 18 at para 16; *Elliott (Re)* (2009), 32 OSCB 6931, 2009 ONSEC 26 at paras 27 and 31.

⁴ *Vantooren (Re)*, 2017 ABASC 187 at para 27.

⁵ *Ontario Securities Commission Rules of Procedure and Forms* (2017), 40 OSCB 8988 (the **Rules of Procedure**).

⁶ *Statutory Powers Procedure Act*, RSO 1990 c S.22, s 7(2); *Rules of Procedure*, r 21(3).

⁷ *Vantooren (Re)*, 2017 ABASC 187 at para 5.

⁸ *Vantooren (Re)*, 2017 ABASC 187 at para 6.

⁹ *Vantooren (Re)*, 2017 ABASC 187 at para 7.

¹⁰ *Vantooren (Re)*, 2017 ABASC 187 at para 21.

¹¹ *Vantooren (Re)*, 2017 ABASC 187 at paras 8-14.

C. Misrepresentations in Breach of Subsection 92(4.1) of the Alberta Act

[11] In or around June 2013, the Respondent informed the Kredo Ranch investors that the project was not feasible and recommended that their Kredo Ranch funds be reinvested in Green Haven Estates Construction & Development Inc. (**Green Haven**). At least two Kredo Ranch investors agreed to reinvest in Green Haven on representations from the Respondent that all of their original investment in Kredo Ranch would be reinvested and that the Green Haven shares would provide a return of 8 percent.¹²

[12] These representations were misleading or untrue, as only a portion of the original investment in Kredo Ranch was available for reinvestment in Green Haven and the rate of return on Green Haven shares was 6 percent. The representations made by the Respondent were intended to and did influence investors to purchase securities of Green Haven, and would reasonably be expected to have a significant effect on the market price or value of Green Haven securities.¹³

D. Illegal Distributions in Breach of Section 110 of the Alberta Act

[13] No preliminary prospectus or prospectus was filed with the ASC, nor was a receipt issued, for any of the Kredo Ranch, Summersaults, NFSC or Green Haven securities sold by the Respondent. The Respondent's trades in these securities were considered distributions under the Alberta Act.¹⁴

E. Undertakings

- [14] In paragraph 27 of his Settlement Agreement with the ASC, the Respondent agreed and undertook to
- a. pay to the ASC the amount of \$10,000 in settlement of all allegations against him; and
 - b. except as specifically outlined below, refrain for a period of 10 years from the date of the Settlement Agreement from
 - i. trading in and purchasing securities or derivatives, except trades that are made through a registrant (who has first been given a copy of the Settlement Agreement) in accounts maintained with that registrant for the benefit of one or more of himself and members of his immediate family, "immediate family" being understood to mean his spouse and dependent children,
 - ii. using any of the exemptions contained in Alberta securities laws,
 - iii. advising in securities or derivatives,
 - iv. becoming or acting as a registrant, investment fund manager or promoter,
 - v. acting in a management or consultative capacity in connection with activities in the securities market, and
 - vi. resign any positions he has as a director or officer, or both, of any issuer, registrant, or investment fund manager, and to refrain from becoming or acting in that capacity.¹⁵

IV. ANALYSIS AND DECISION

[15] Staff seeks an order pursuant to subsections 127(10) and (1) of the Act imposing trading and market-access bans that substantially mirror those in the Settlement Agreement.

- [16] The issues for this Panel to consider are:
- a. whether one or more of the circumstances under subsection 127(10) of the Act apply to the Respondent; and, if so,

¹² *Vantooren (Re)*, 2017 ABASC 187 at paras 15-16.

¹³ *Vantooren (Re)*, 2017 ABASC 187 at paras 17-18.

¹⁴ *Vantooren (Re)*, 2017 ABASC 187 at paras 20-21.

¹⁵ *Vantooren (Re)*, 2017 ABASC 187 at para 27.

- b. whether the Commission should exercise its public interest jurisdiction to make an order pursuant to subsection 127(1) of the Act.

A. Subsection 127(10) of the Act

- [17] Subsection 127(10) of the Act does not itself empower the Commission to make an order; rather, it provides a basis for an order under subsection 127(1). This provision facilitates the cross-jurisdictional enforcement of decisions by allowing the Commission to issue protective, preventive and prospective orders to ensure that misconduct that has taken place in another jurisdiction will not be repeated in Ontario's capital markets.
- [18] Paragraph 5 of subsection 127(10) provides for inter-jurisdictional enforcement where a person or company has agreed with a securities regulatory authority to be made subject to sanctions, conditions, restrictions or requirements.
- [19] Paragraph 3 of the Settlement Agreement provides as follows:
- Solely for securities regulatory purposes in Alberta and elsewhere, and as the basis for the settlement and undertakings referred to in paragraph 27 and for no other use or purpose, Vantoren agrees to the facts and consequences set out in this Agreement.
- [20] In the Settlement Agreement, including in paragraph 27, the Respondent agrees and undertakes to be made subject to "sanctions, conditions, restrictions or requirements." The Respondent also agrees that the ASC can enforce the Settlement Agreement in the Alberta court, and that the Settlement Agreement can form the basis for securities-related orders in other jurisdictions in Canada.¹⁶ Although the ASC did not make an order to reflect the terms agreed by the parties in the Settlement Agreement, the agreement itself is sufficient to meet the threshold set out in paragraph 5 of subsection 127(10) of the Act.

B. Subsection 127(1) of the Act

- [21] The threshold having been met under paragraph 5 of subsection 127(10), the Panel must determine what sanctions, if any, should be ordered against the Respondents pursuant to subsection 127(1).
- [22] Subsection 127(1) empowers the Commission to make orders where it is in the public interest to do so. The Commission is not required to make an order similar to that made by the originating jurisdiction. Rather, the Panel must first satisfy itself that an order for sanctions is necessary to protect the public interest in Ontario and then consider what the appropriate sanctions should be.
- [23] Orders made under subsection 127(1) of the Act are "protective and preventive" and are made to restrain future conduct that is likely to be prejudicial to the public interest in fair and efficient capital markets.¹⁷
- [24] The Commission must make its own determination of what is in the public interest. It is also important that the Commission be aware of and responsive to an interconnected, inter-provincial securities industry. The threshold for reciprocity is low.¹⁸ A low threshold is supported by the principle found in section 2.1 of the Act, which provides that "[t]he integration of capital markets is supported and promoted by the sound and responsible harmonization and co-ordination of securities regulation regimes."
- [25] In determining the nature and scope of sanctions to be ordered, the Commission can consider a number of factors, including the seriousness of the conduct, specific and general deterrence, and any mitigating factors.¹⁹
- [26] The unregistered trading, illegal distributions and misleading statements admitted by the Respondent would have been serious breaches of the Act in Ontario and would have been contrary to the public interest in Ontario. Such breaches could attract similar sanctions in Ontario to what was agreed in the Settlement Agreement. The lengthy trading and market-access bans proposed by Staff will help ensure that the Ontario markets are protected from the Respondent, and that the Respondent and like-minded persons will be deterred from engaging in similar abuses in the future.

¹⁶ *Vantoren (Re)*, 2017 ABASC 187 at paras 30-31.

¹⁷ *Committee for Equal Treatment of Asbestos Minority Shareholders v Ontario (Securities Commission)*, [2001] 2 SCR 132, 2001 SCC 37 at paras 42-43.

¹⁸ *JV Raleigh Superior Holdings Inc (Re)* (2013), 36 OSCB 4639, 2013 ONSEC 18 at para 21.

¹⁹ *Belteco Holdings Inc (Re)* (1998), 21 OSCB 7743 at 7746; *MCJC Holdings Inc* (2002), 25 OSCB 1133 at 1136.

[27] The Settlement Agreement also sets out mitigating factors, including that the Respondent had not previously been sanctioned by the ASC, and there was no evidence that he received a financial benefit as a result of his breaches of Alberta securities laws.²⁰

C. Differences between the Agreed Sanctions and the Proposed Order

[28] Subsection 127(1) of the Act does not expressly authorize the Commission to prohibit “acting in a management or consultative capacity” or “advising,” both of which were included in the Settlement Agreement.²¹ The Alberta Act does not define “acting in a management or consultative capacity.”

[29] The Commission has previously held that many, but not all, of these types of activities will be captured by bans from acting as a director or officer of an issuer or registrant and from acting as a registrant or promoter. Although the sanctions in the Settlement Agreement may be somewhat broader, the proposed order mirrors them to the extent possible under the Act and effectively prohibits the Respondent from engaging in activities relating to the securities market in Ontario like those identified in the Settlement Agreement.²²

[30] Also, since the proposed order prohibits the Respondent from acting as a director or officer of a registrant, and the Commission has previously confirmed that the term “registrant” includes an “investment fund manager,”²³ prohibiting the Respondent from acting as a director or officer of an investment fund manager is unnecessary.

V. CONCLUSION

[31] For the reasons provided above, the facts agreed to in the Settlement Agreement support the making of an inter-jurisdictional order with the following terms:

- a. pursuant to paragraph 2 of subsection 127(1) of the Act, trading in securities or derivatives by the Respondent cease until December 19, 2027, except that the Order would not preclude the Respondent from trading in securities or derivatives through a registrant (who has first been given a copy of the Settlement Agreement, and a copy of the Order of the Commission in this proceeding), in accounts maintained with that registrant for the benefit of one or more of himself and members of his immediate family, being the Respondent’s spouse and dependent children;
- b. pursuant to paragraph 2.1 of subsection 127(1) of the Act, the acquisition of any securities by the Respondent cease until December 19, 2027, except that the Order would not preclude the Respondent from trading in securities or derivatives through a registrant (who has first been given a copy of the Settlement Agreement, and a copy of the Order of the Commission in this proceeding), in accounts maintained with that registrant for the benefit of one or more of himself and members of his immediate family, being Respondent’s spouse and dependent children;
- c. pursuant to paragraph 3 of subsection 127(1) of the Act, any exemptions contained in Ontario securities law do not apply to the Respondent until December 19, 2027;
- d. pursuant to paragraphs 7 and 8.1 of subsection 127(1) of the Act, the Respondent resign any positions that he holds as a director or officer of any issuer or registrant;
- e. pursuant to paragraphs 8 and 8.2 of subsection 127(1) of the Act, the Respondent be prohibited until December 19, 2027 from becoming or acting as a director or officer of any issuer or registrant; and
- f. pursuant to paragraph 8.5 of subsection 127(1) of the Act, the Respondent be prohibited until December 19, 2027 from becoming or acting as a registrant or promoter.

Dated at Toronto this 3rd day of July, 2018.

“Robert P. Hutchison”

²⁰ *Vantooren (Re)*, 2017 ABASC 187 at paras 23-24.

²¹ *Vantooren (Re)*, 2017 ABASC 187 at paras 27.2.3 and 27.2.5.

²² *McClure (Re)* (2017), 40 OSCB 8135, 2017 ONSEC 34 at paras 8-10.

²³ *Dhanani (Re)* (2017), 40 OSCB 4457, 2017 ONSEC 15 at para 14.

3.1.2 Sino-Forest Corporation et al. – ss. 127(1), 127.1

IN THE MATTER OF
SINO-FOREST CORPORATION,
ALLEN CHAN,
ALBERT IP,
ALFRED C.T. HUNG,
GEORGE HO,
SIMON YEUNG and
DAVID HORSLEY

REASONS AND DECISION ON
SANCTIONS AND COSTS
(Sections 127 and 127.1 of the
Securities Act, RSO 1990, c S.5)

Citation: *Sino-Forest Corporation (Re)*, 2018 ONSEC 37

Date: 2018-07-09

Hearing: November 20 and 27, 2017
January 18, 2018
March 26 and 27, 2018

Decision: July 9, 2018

Panel: D. Grant Vingoe Vice Chair and Chair of the Panel
Deborah Leckman Commissioner
Garnet W. Fenn Commissioner

Appearances: Hugh Craig For Staff of the Commission
Carlo Rossi

Adam D.H. Chisholm For Allen Chan, Albert Ip, Alfred C.T. Hung,
Jeffrey Levine George Ho and Simon Yeung
Jon Wypych

No one appeared on behalf of Sino-Forest Corporation.

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REASONS AND DECISION

I. INTRODUCTION

- [1] Sino-Forest described itself as a leading commercial forest plantation operator in China. Sino-Forest became a reporting issuer in Ontario in 1995 when it listed its shares on the TSX through a reverse takeover transaction. Between February 2003 and October 2010 Sino-Forest raised approximately US \$3 billion from investors by issuing debt and equity securities. From June 30, 2006 to March 31, 2011, Sino-Forest's share price rose 340% from CA \$5.75 to CA \$25.30.
- [2] On June 2, 2011, the Muddy Waters Report¹ was released alleging Sino-Forest was a "near total fraud" and a Ponzi scheme. The day before the Muddy Waters Report was released, Sino-Forest's share price was CA \$18.21. By June 21, 2011, the share price had declined to CA \$1.99.
- [3] On August 26, 2011, the Commission ordered all trading in Sino-Forest shares to cease.
- [4] On May 9, 2012 the TSX delisted Sino-Forest shares.
- [5] In May 2012, Staff commenced this proceeding against Sino-Forest and the individual respondents – Allen Chan, Albert Ip, Alfred Hung, George Ho, Simon Yeung and David Horsley – alleging misconduct during the Material Time: June 30, 2006 to January 11, 2012.
- [6] On January 30, 2013, Sino-Forest entered a Plan of Compromise and Reorganization that resulted in Sino-Forest's former bondholders transferring all of its remaining assets into Emerald Plantation Holdings. Emerald assigned a nil value to the BVI standing timber assets, a central portion of Sino-Forest's total reported assets and source of revenues.
- [7] David Horsley, Sino-Forest's former CFO, settled the proceeding brought by Staff of the Commission against him prior to the start of the Merits Hearing.
- [8] The hearing to determine whether the remaining respondents engaged in the misconduct alleged by Staff began on September 2, 2014. The Merits Hearing was exceptionally long. It lasted 188 days and involved over 2000 exhibits. Twenty-two witnesses testified in Toronto, Hong Kong, mainland China and the Dominican Republic, some through video conferencing. Mr. Chan did not testify.
- [9] The Merits Decision was issued on July 13, 2017.² The Merits Panel found that during the Material Time the respondents perpetrated one of the largest corporate frauds in Canadian history. With deliberate planning and foresight, the respondents constructed an elaborate and complex organizational structure that misled investors and resulted in the cumulative loss of CA \$6 billion in equity market capitalization, separate and apart from losses affecting Sino-Forest's outstanding debt.
- [10] We must determine the appropriate sanctions and costs order given the Merits Panel's findings.
- [11] Staff seek an order imposing prohibitions, administrative penalties, disgorgement and costs on Allen Chan, Albert Ip, Alfred Hung and George Ho. Staff seek an order imposing prohibitions and an administrative penalty on Simon Yeung, but do not seek disgorgement and costs. Staff do not seek any sanctions against or costs from Sino-Forest.
- [12] The respondents and Staff agree on the prohibitions to be ordered, but disagree on the appropriate administrative penalties and orders for disgorgement.
- [13] The respondents and Staff also agree on the appropriate amount of costs to be ordered.

II. THE INDIVIDUAL RESPONDENTS

- [14] Allen Chan was a co-founder of Sino-Forest in 1992 and Chairman of the Board and CEO during the Material Time until his resignation on August 28, 2011. Mr. Chan was born, educated and resided in Hong Kong and had extensive relationships at both the local and central levels of the Chinese government. Mr. Chan was very involved in day-to-day operations. For example, he approved every purchase contract and signed every sales contract in the BVI Model, in which Sino-Forest used subsidiaries incorporated in the British Virgin Islands. Mr. Chan was the ultimate decision maker and compensating control; he was regarded as a 'visionary', deciding Sino-Forest's direction, strategy and goals. No significant decisions were made without Mr. Chan's knowledge and approval.

¹ Unless defined in these Reasons and Decision, initially capitalized terms used in these Reasons and Decision have the meanings assigned to them in the Merits Decision.

² *Sino-Forest Corporation (Re)*, 2017 ONSEC 27, 40 OSCB 6291.

- [15] Albert Ip was the Senior Vice President, Development and Operations North-East and South-West China and reported directly to Mr. Chan. Mr. Ip was in charge of operations for 48 subsidiaries and supervised over 1000 employees with operations distributed over nine provinces across Mainland China. Within the BVI Model, Mr. Ip was responsible for standing timber purchases. He worked at Sino-Forest from 1997 until March 30, 2012. Mr. Ip obtained an engineering degree from the University of Ottawa in 1984.
- [16] Alfred Hung was Vice-President Corporate Planning for Sino-Forest for much of the Material Time, joined Sino-Forest in 1999, and reported to Mr. Chan. Within the BVI Model, he oversaw the drafting of purchase and sales contracts and the netting of accounts receivable and accounts payable. His central role was critical to the Deceitful Documentation Process. Mr. Hung was a member of the Disclosure Committee. He received a Masters of Finance, an MBA, and a Financial Risk Manager designation. Mr. Hung lost his professional designation as a Chartered Financial Analyst as a result of his breaches of the *Securities Act*, RSO 1990, c S.5 (the **Act**).
- [17] George Ho joined Sino-Forest in 2007 and was Vice-President, Finance for Sino-Forest and CFO and Vice-President Finance of Sino-Panel, the holding company for the BVI Model. He had ultimate oversight over accounting personnel at Sino-Panel and reported directly to Mr. Chan. He obtained a Bachelor of Commerce degree in accounting from Simon Fraser University and worked at business and accounting firms in Canada and Hong Kong prior to joining Sino-Forest.
- [18] Simon Yeung was Vice-President, Operations of Sino-Panel, having joined Sino-Forest in 2002, and reported to Mr. Ip. He was described as a “first line trouble shooter to deal with operational issues.” Mr. Yeung obtained a degree in economics and a mechanical engineering diploma.

III. THE MERITS DECISION

- [19] The Merits Panel found that:
- a. Mr. Chan, Mr. Ip, Mr. Hung and Mr. Ho committed fraud through their participation in elements of the Standing Timber Fraud, which resulted in the overstatement of Sino-Forest’s assets and revenue.
 - b. Mr. Chan, Mr. Ip, Mr. Hung and Mr. Ho authorized, permitted and/or acquiesced in Sino-Forest making disclosures which were misleading in a material respect regarding Sino-Forest’s assets and revenue, the effects of the fraud on reported revenue, and Sino-Forest’s internal controls.
 - c. Mr. Chan committed fraud in connection with the Greenheart Transactions, by concealing his interest in Greenheart when it was purchased by Sino-Forest.
 - d. Mr. Chan authorized, permitted and acquiesced in Sino-Forest making disclosures that were misleading in a material respect regarding his interest in Greenheart.
 - e. Mr. Chan, Mr. Ip, Mr. Ho, Mr. Hung and Mr. Yeung misled Staff during the investigation.
- [20] Given the length of the Merits Decision, we summarize below the Merits Panel’s findings in more detail.

A. The Standing Timber Fraud

- [21] The Merits Panel found that the Standing Timber Fraud was an elaborate scheme to defraud investors, and that Mr. Chan, Mr. Ip, Mr. Ho and Mr. Hung knew their conduct was deceitful and dishonest and put investors’ pecuniary interests at risk.
- [22] There were three elements necessary to perpetrate the Standing Timber Fraud: undisclosed control of purportedly independent third parties; the deceitful documentation process; and internal control weaknesses.
- [23] Mr. Chan engaged in all three elements of the Standing Timber Fraud during the Material Time, which ultimately caused the assets and revenue derived by the purchase and sale of standing timber to be fraudulently overstated and put the pecuniary interests of investors at risk. Not only was Mr. Chan intimately involved in virtually every aspect of the Standing Timber Fraud during the Material Time, as CEO, he was regarded as Sino-Forest’s ‘visionary’, setting the ‘tone at the top’, and determining Sino-Forest’s long term strategy. Mr. Chan engaged in deceitful and dishonest conduct related to Sino-Forest’s standing timber assets and revenue that he knew constituted fraud, contrary to subsection 126.1(b) of the Act, and contrary to the public interest.
- [24] Mr. Ip was also found to be intimately involved in virtually every aspect of the Standing Timber Fraud during the Material Time. He knowingly deceived investors through his involvement in Sino-Forest’s undisclosed control of companies and

in the Deceitful Documentation Process. These two elements independently harmed investors by putting their pecuniary interests at risk. Mr. Ip's oversight of the execution of all Four Frauds – four examples of the Standing Timber Fraud considered by the Merits Panel – demonstrates the oversight he had over Sino-Forest's fraudulent operations. Mr. Ip directed employees of the Sino-Panel Group in the fraudulent recording of transactions in the Four Frauds that led to Sino-Forest's overstatement of assets and revenue during the Material Time. Mr. Ip engaged in deceitful and dishonest conduct related to Sino-Forest's standing timber assets and revenue that he knew constituted fraud, contrary to subsection 126.1(b) of the Act, and contrary to the public interest.

[25] Mr. Hung was the central figure in, and controlled, the Deceitful Documentation Process which put investors' pecuniary interests at risk. He knew his role in the internal control weakness resulting from the concentration of duties was a key element of the Standing Timber Fraud, and went along with Mr. Chan's failure to remediate this internal control weakness. Mr. Hung engaged in deceitful and dishonest conduct related to Sino-Forest's standing timber assets and revenue that he knew constituted fraud, contrary to subsection 126.1(b) of the Act, and contrary to the public interest.

[26] Mr. Ho knowingly deceived investors through his involvement in Sino-Forest's undisclosed control of companies with which it transacted business. This element of the Standing Timber Fraud, on its own, put the pecuniary interests of investors at risk. Although Mr. Ho was not an architect of the Deceitful Documentation Process in the way Mr. Chan, Mr. Ip and Mr. Hung were, his involvement in three of the Four Frauds demonstrates he nonetheless played a significant role in the Standing Timber Fraud. Mr. Ho engaged in deceitful and dishonest conduct related to Sino-Forest's standing timber assets and revenue that he knew constituted fraud, contrary to subsection 126.1(b) of the Act, and contrary to the public interest.

1. Undisclosed Control of or Influence Over Related Companies

[27] The Merits Panel found that Sino-Forest controlled, or had significant influence over, customers and suppliers that were purported to be arms' length. None of these relationships were disclosed to investors. Sino-Forest controlled Yuda Wood, its largest supplier between 2007 and 2010, with approximately US \$600 million in transactions, or more than 20% of all BVI transactions during that time period. Sino-Forest controlled Kun'an, Sino-Forest's largest supplier in 2009, with US \$264 million in purchases, or 29% of total BVI purchases in that year. Also found to be controlled by Sino-Forest were Taiyuan and Dongkou. Juncheng, Shunxuan, Yuangao and Meishan were companies over which Sino-Forest exerted significant influence and were related parties.

[28] This complex web of related and controlled companies was required in order to perpetrate the Standing Timber Fraud. With no independent verification of purchases and sales, the true economic substance of transactions between Sino-Forest and these companies was called into question. Similarly, the existence and value of assets and revenues recorded in the financial statements was called into question.

[29] Through the resulting misleading disclosure, Sino-Forest deceived investors about the accuracy and reliability of its financial statements. Investors could not make informed decisions to buy, sell or hold Sino-Forest securities. Investors relied on the completeness and accuracy of Sino-Forest's statements, and were misled.

[30] Mr. Chan, Mr. Ip, Mr. Hung and Mr. Ho deliberately hid information from Sino-Forest's Audit Committee, Board of Directors and auditors about the nature of Sino-Forest's relationships with these companies. As Chairman and CEO, Mr. Chan was involved in, and ultimately responsible for, the company's disclosure. He knew the importance of providing complete and accurate disclosure to investors, yet he intentionally hid key information concerning undisclosed control. He knew the disclosure was deceitful and put the pecuniary interests of investors at risk.

[31] Mr. Ip was responsible for all purchases in the BVI Model and oversaw key elements of the business and transactions of companies that were controlled by, or related to, Sino-Forest. Examples of his wide-ranging oversight include his involvement in the supposedly independent audit confirmation process, his oversight of the changing shareholder structure of Yuda Wood's parent company, HK Sonic Jita, and his oversight of bank accounts of many of these controlled or related companies. He understood these relationships were critical to the success of the Standing Timber Fraud. As a senior officer, Mr. Ip certified that the financial statement disclosure was accurate when he knew it was not, and knowingly put the pecuniary interests of investors at risk.

[32] Mr. Hung was involved in and knew of Sino-Forest's role in the creation of Audit Confirmation Letters, which he knew should have been independent but were not. The purpose of these Audit Confirmation Letters was to provide independent confirmation from Sino-Forest's suppliers and customers to the auditor of their transactions with Sino-Forest.

[33] Mr. Ho was involved in Sino-Forest's control over related companies. Mr. Ho's approval was required to apply Yuda Wood's corporate chops and make payments from its bank accounts. He was also involved in the supposedly independent audit confirmation process. Mr. Ho knew these companies were not independent of Sino-Forest. He was CFO of Sino-Panel and had ultimate oversight of accounting for the Sino-Panel subsidiaries. He has an accounting

background and knew related party transactions would call into question the assets and revenue of Sino-Forest. He sat on Sino-Forest's Disclosure Committee, whose mandate was to assist senior officers in fulfilling their responsibility for oversight of the completeness, accuracy and timeliness of Sino-Forest's disclosures. He certified Sino-Forest's disclosure was accurate when he knew it was not and he took no steps to correct the inaccurate disclosure. The Panel found that Mr. Ho knew concealing this critical information about Sino-Forest's control and related party relationships put investors' pecuniary interests at risk.

2. Deceitful Documentation Process

- [34] The Merits Panel found that the Deceitful Documentation Process was an elaborate scheme involving purchase contracts, Forestry Bureau Confirmations, Survey Reports, sales contracts, set-off documents and audit confirmation letters.
- [35] Mr. Chan, Mr. Ip and Mr. Hung were the key architects of the Deceitful Documentation Process, which put investors' pecuniary interests at risk.
- [36] Mr. Chan was deeply involved and actively participated in the Deceitful Documentation Process. As the "ultimate and compensating control" over transactions and the signatory on all sales contracts in the BVI Model, Mr. Chan's frontline role was not merely ceremonial. He knew key documentation was missing from purchase contracts and knew the process descriptions relied on by E&Y did not accurately reflect the documentation process. Mr. Chan deliberately hid from the auditors what actually occurred.
- [37] Mr. Chan instructed Mr. Hung to pay suppliers before written contracts were prepared. He also instructed that plantation locations be kept secret in documentation, such that the documentation was insufficient to identify plantation locations. Mr. Chan signed contracts in the quarter following when they were recorded. Notwithstanding this, he certified that the financial disclosure was accurate and complete.
- [38] Mr. Chan knew Sino-Forest's BVI entities could not obtain Plantation Rights Certificates (**PRCs**) and was not even applying for them; he nonetheless authorized the misleading public disclosure that Sino-Forest was applying for PRCs. Mr. Chan failed to disclose the crucial fact that, because BVI entities could not obtain PRCs, Sino-Forest was never the legal and registered owner of the standing timber in the BVI Model. Mr. Chan misled the Board of Directors, the Audit Committee and E&Y about critical information which led to Sino-Forest's inaccurate disclosure, putting investors' pecuniary interests at risk.
- [39] Mr. Ip was intimately involved in the Deceitful Documentation Process through his role in overseeing all purchases in the BVI Model. He approved all purchases and by Q2 2010 was signing all purchase contracts. He was responsible for the Sino-Panel Resource Department, which sourced the BVI standing timber. Like Mr. Chan, Mr. Ip knew BVIs could not obtain PRCs and Sino-Forest was not even applying for them; nevertheless he certified the misleading disclosure to the contrary. Mr. Ip knew the BVI standing timber could not be located. Mr. Ip knew the BVI Model assets and revenue recorded in the financial statements could not be relied upon, which put investors' pecuniary interests at risk.
- [40] Mr. Hung was the central figure in, and controlled, the Deceitful Documentation Process. He certified that Sino-Forest disclosure contained no untrue statement of material facts and did not omit facts necessary to make them not misleading. Mr. Hung knew these financial statements were misleading. Mr. Hung directed the settlement of receivables and payables prior to the existence of contracts. He directed the preparation and backdating of purchase and sales documentation in batches in the quarter following their recognition in financial statements. He was a member of the Disclosure Committee, but took no steps to correct the inaccurate disclosure. Mr. Hung had an extensive educational background in finance and was aware of the consequences of inaccurate disclosure on the pecuniary interests of investors.
- [41] The purchase documentation was fundamentally flawed. Sino-Forest employed the Deceitful Documentation Process whereby Sino-Forest drafted and executed purchase contracts and Forestry Bureau Confirmations in batches in the quarter after they were dated and the assets were recorded. The Merits Panel found that the respondents' convoluted description of the purchase process, based on handshakes, phone calls and sticky notes involving billions of renminbi, was simply unbelievable.
- [42] There is no evidence that ownership of standing timber was ever transferred to Sino-Forest in the BVI Model. Sino-Forest recorded the asset value of its BVI standing timber in its financial statements at US \$1.088 billion in 2007, US \$1.479 billion in 2008, US \$1.901 billion in 2009 and US \$2.475 billion in 2010. The Merits Panel found that the purchase documentation did not establish proof of ownership and did not identify the location of this standing timber such that its existence could be readily and independently verified. The purchase documentation process was deceitful.

- [43] Similarly, the sales documentation process was fundamentally flawed. Sino-Forest employees employed a deceitful documentation process whereby Sino-Forest drafted and executed sales contracts in batches in the quarter after they were dated and recognized in the financial statements.
- [44] The flawed sales documentation process resulted in Sino-Forest recognizing revenue in the BVI Model in a manner that was deceitful. Sino-Forest recorded revenue from the sale of BVI standing timber of US \$501 million in 2007, US \$644 million in 2008, US \$882 million in 2009 and US \$1.326 billion in 2010. The Merits Panel found the revenue disclosure in the financial statements was inaccurate, did not represent what actually occurred and was therefore deceitful.
- [45] Because BVI subsidiaries could not have bank accounts in Mainland China, Sino-Forest employed a complex set-off process whereby Sino-Forest customers were directed to make payments to Sino-Forest suppliers rather than to Sino-Forest directly. However the process apparently involved layers of third, fourth and fifth customers and suppliers, referred to as a "daisy chain of cash". In effect, Sino-Forest had no way of knowing if accounts payable and receivable were settled, and taxes paid, assuming they were settled at all. In fact, while Sino-Forest had a 100% collection record in the BVI Model prior to the Muddy Waters Report, subsequently, many customers simply deregistered and disappeared, leaving Sino-Forest with US \$887.4 million in uncollectible accounts receivable. No disclosure of the actual set-off process was included in the financial statements, which made the statements incomplete, inaccurate and deceitful.
- [46] Sino-Forest used the Deceitful Documentation Process (purchases, sales and set-offs) to obscure the truth about its ownership of standing timber and standing timber revenue recognition in the BVI Model. This Process deceived investors about the assets Sino-Forest purportedly owned and the revenue recognized from the sale of standing timber. Sino-Forest stated it had proof of ownership when it did not. Sino-Forest created supposedly independent Forestry Bureau Confirmations, which were not proof of legal ownership, and the standing timber could not be located. Sino-Forest misstated its revenue recognition resulting from the sales of standing timber in its public disclosure. The Set-Off Process was a means by which Sino-Forest deceived its auditors and investors about the volume and value of transactions in the BVI Model.
- [47] The Deceitful Documentation Process called into question the assets and revenue Sino-Forest recorded in the BVI Model during the Material Time, significantly putting the pecuniary interests of investors at risk. Approximately 70% of the total timber holdings by hectare and approximately 70% of the revenue the company recognized between 2007 and 2010 could not be verified. In the six years that passed between the Muddy Waters Report and the end of the Merits Hearing there was no evidence that demonstrated the ownership or existence of the BVI assets that had been valued at CA \$2.9 billion on Sino-Forest's 2010 financial statements. The complexity, scale and duration of the fraud are simply stunning.

3. Undisclosed Internal Control Weaknesses

- [48] The Merits Panel found that the concentration of duties in Mr. Hung was an essential element of the Standing Timber Fraud. Mr. Hung's role encompassed recording BVI standing timber purchases and sales, reporting the information to Sino-Forest's accounting department, providing all supporting documentation and settling all accounts receivable and payable in the BVI Model.
- [49] The Merits Panel found that Mr. Chan could have easily remediated this internal control weakness, but did not, because it facilitated the continuation of the Deceitful Documentation Process. He misled the Board when he claimed remediating this concentration of control would jeopardize relationships with customers and suppliers because Mr. Hung had no relationships with them. Mr. Chan dishonestly concealed the lack of segregation of duties in Sino-Forest financial statement disclosure. Mr. Chan's motivation in perpetuating the lack of segregation of duties was to maintain the Standing Timber Fraud. Mr. Hung knew the significance of this internal control weakness and went along with Mr. Chan's failure to remediate it.

4. Four Examples of The Standing Timber Fraud – The "Four Frauds"

- [50] The Merits Panel found that the respondents collectively engaged in fraud in respect of four sets of transactions – the Four Frauds – that were used by Staff to illustrate the Standing Timber Fraud: the Dacheng Transactions, the 450 Transactions, the Gengma #1 Transactions and the Gengma #2 Transactions.
- [51] The Dacheng Transactions provide an example of Mr. Ip and Mr. Ho's involvement in the perpetration of the Standing Timber Fraud. In the Dacheng Transactions Sino-Forest recorded the sale of the same assets in the BVI and WFOE Models. The BVI purchase was fictitious and inflated the assets on Sino-Forest's financial statements for 2008 by approximately US \$30 million. The sale of these duplicate assets through the BVI Model was likewise fictitious and resulted in the overstatement of Sino-Forest's revenue in 2009 by approximately US \$48 million. This overstatement of assets and revenue put the pecuniary interests of investors at risk.

- [52] The 450 Transactions provide an example of Mr. Chan, Mr. Ip and Mr. Ho's involvement in the Standing Timber Fraud. The purchase and sales contracts in the 450 Transactions, which were purportedly executed in the same quarter, were reverse-engineered with the full knowledge and support of Mr. Chan, Mr. Ip and Mr. Ho. Documentation to support these transactions was created to deceive Sino-Forest's CFO and auditors. The sales contracts had no economic substance and resulted in Sino-Forest's overstatement of revenue by approximately US \$30 million in 2009. This revenue was found not to exist.
- [53] The Gengma #1 Transactions provide an example of Mr. Chan and Mr. Ip's involvement in the perpetration of the Standing Timber Fraud. Sino-Forest created fictitious purchase contracts in the BVI Model in order to inflate the value of forest assets on its financial statements in 2007, 2008 and 2009. The actual purchase of the plantation was in the WFOE Model. Sino-Forest created fictitious sales contracts that inflated its revenue by US \$231 million in 2010. These assets were never sold by Sino-Forest, thereby overstating revenue by the full amount of US \$231 million.
- [54] The Gengma #2 Transactions provide an example of Mr. Chan, Mr. Ip and Mr. Ho's involvement in the perpetration of the Standing Timber Fraud. Sino-Forest created fictitious purchase contracts that inflated the value of assets on Sino-Forest's financial statements in 2007 and 2008, and created fictitious sales contracts that misstated revenue on its financial statements in 2008 and 2009 by approximately US \$49 million.

B. Materially Misleading Statements

- [55] The Merits Panel found that Sino-Forest made statements in its Impugned Disclosure Documents issued during the Material Time that were misleading in a material respect. The materially misleading statements relate to: (i) statements regarding ownership of assets and revenue recognition, (ii) the effects of the Four Frauds on the reported revenue of Sino-Forest, and (iii) statements regarding internal controls.
- [56] Mr. Chan authorized and permitted Sino-Forest's making of statements that were misleading in a material respect.
- [57] Mr. Ip and Mr. Ho permitted and acquiesced in Sino-Forest's making of statements that were misleading in a material respect.
- [58] Mr. Hung permitted Sino-Forest's making of statements in respect of ownership of assets and revenue recognition that were misleading in a material respect, and acquiesced in Sino-Forest's making of statements in respect of its internal controls that were misleading in a material respect.

1. Statements Regarding Ownership of Assets and Revenue Recognition

- [59] Mr. Chan, as CEO, authorized and permitted the making of materially misleading statements by Sino-Forest relating to ownership of assets and revenue recognition in the Impugned Disclosure Documents.
- [60] Mr. Chan, Mr. Ip and Mr. Hung controlled the BVI Model, designed the actual documentation process and were aware this process was deceitful. Mr. Chan and Mr. Ip did not disclose that Sino-Forest's BVI subsidiaries could not obtain PRCs and thus could have no ownership claim to the BVI standing timber assets because those rights had never been registered. Mr. Chan and Mr. Ip knew the Villagers' Resolutions were never attached to purchase contracts. They knew the standing timber could not be identified using purchase contracts and their supporting documentation. Mr. Chan signed all sales contracts and therefore knew contracts were signed in the quarter after Sino-Forest recognized the revenue from them.
- [61] Mr. Ip and Mr. Hung, by virtue of their control of the BVI Model, their design of the actual documentation process and their awareness this process was deceitful, knew the financial statement disclosure was misleading. Mr. Ip was in charge of all purchases of standing timber in the BVI Model and, as a senior officer of Sino-Forest, could have changed the process. Mr. Hung was a senior officer of Sino-Forest, was on the Disclosure Committee and had an extensive education in finance. He had influence over how information was disclosed. Both signed sub-certifications quarterly, verifying the misleading disclosure and did nothing to change it.
- [62] Mr. Ip and Mr. Hung permitted and acquiesced in the making of materially misleading statements by Sino-Forest relating to ownership of assets and revenue recognition in the Impugned Disclosure Documents.
- [63] Sino-Forest's disclosure during the Material Time misrepresented its ownership claims to its standing timber assets, based on Forestry Bureau Confirmations. These were not official documents, nor could they be relied upon in the event of a dispute of title in a court of law. Indeed, the forestry bureaus specifically stated the confirmations could only be used internally by Sino-Forest and may have exceeded the forestry bureau's authority to issue them, among other deficiencies. Despite this, Sino-Forest's AIFs made virtually identical disclosure during the Material Time regarding the Confirmations as proof of ownership of its BVI standing timber assets.

- [64] Mr. Chan and Mr. Ip knew Sino-Forest subsidiaries in the BVI Model could not obtain PRCs. Mr. Ip testified Sino-Forest never applied for PRCs in the BVI Model. The omission that Sino-Forest's BVIs could not obtain PRCs made the disclosure misleading.
- [65] Furthermore, Forestry Bureau Confirmations were only one of three attachments which were to accompany each BVI purchase contract; also noted as attachments were Villagers' Resolutions and Survey Reports. No Villagers' Resolutions were ever attached to a BVI purchase contract. The Impugned Disclosure Documents made no disclosure whatsoever that key attachments were missing from every BVI purchase contract, further weakening Sino-Forest's purported claim of ownership of the Standing Timber. These omissions were misleading.
- [66] The questionable authenticity of the Survey Reports, which also lacked any specific location descriptions, further weakened Sino-Forest's ownership claims. Neither the purchase contracts nor the Survey Reports provided sufficient information so that the standing timber assets could be independently located.
- [67] Sino-Forest failed to register its ownership of Standing Timber in the BVI Model and therefore did not become the legal owner, contrary to its disclosure. The Merits Panel found that this is critical information a reasonable investor would consider important in making an investment decision. The disclosure Sino-Forest did provide significantly understated this risk, since this lack of proof of ownership related to approximately 70% of Sino-Forest total timber holdings by hectare and on a value basis.
- [68] Sino-Forest failed to disclose in the Impugned Disclosure Documents the three fundamental flaws in the Standing Timber purchase contracts which relate to ownership of assets: backdating of contracts post-quarter end, insufficient proof of ownership, and failure to identify the specific assets being acquired.
- [69] With respect to revenue recognition, Sino-Forest's practice of creating and executing sales contracts in the quarters after revenue related to those transactions was recognized was contrary to the revenue recognition process set out in Sino-Forest's continuous disclosure documents.

2. Effects of the Four Frauds on Reported Revenue

- [70] The Merits Panel found that a reasonable investor would have considered the overstatements in revenue, arising from the Four Frauds, described above, made in the Impugned Disclosure Documents to be important when making an investment decision whether to buy, sell or hold Sino-Forest securities. These overstatements would also have cast doubt over the accuracy and integrity of all Sino-Forest financial statements, given the pervasiveness of the overstatements, which occurred over three years: 2008, 2009 and 2010. This undermining of trust in the accuracy and integrity of the statements would have a damaging effect on the market value of its securities, as trust is ultimately the foundation upon which our financial markets rest.
- [71] Sino-Forest's misleading disclosure about the Four Frauds was found to be undoubtedly important to a reasonable investor. Sino-Forest made statements in respect of revenue attributed to the Four Frauds that were in a material respect and at the time and in light of the circumstances under which they were made, misleading and untrue.
- [72] Mr. Chan authorized and permitted Sino-Forest's making of materially misleading statements about revenue attributed to three of the Four Frauds (the Gengma #1 Transactions, the Gengma #2 Transactions and the 450 Transactions). Overstatements of revenue resulting from these three frauds over an extended period were found to undermine trust in the accuracy and integrity of Sino-Forest's financial statements and to have a damaging effect on the market value of its securities.
- [73] Mr. Ip was found to have been directly and deeply involved in the Dacheng Transactions fraud from the very beginning. Mr. Ip had intimate knowledge of the Gengma #1 Transactions and the Gengma #2 Transactions. He was one of the key decision-makers in the extensive planning of the fraudulent transactions in the 450 Transactions. Mr. Ip permitted and acquiesced in Sino-Forest's making of materially misleading statements about revenue attributed to the Four Frauds.
- [74] Mr. Ho was found to have been directly involved in the 450 Transactions. In the Gengma #2 Transactions, Mr. Ho was aware of the circular flow of funds to settle the outstanding receivables. He participated in orchestrating the Dacheng Transactions fraud. Mr. Ho permitted and acquiesced in Sino-Forest's making of materially misleading statements about revenue attributed to three of the Four Frauds.

3. Statements Regarding Internal Controls

- [75] The Merits Panel found that a reasonable investor would find Sino-Forest's failure to properly disclose the material weakness in its internal controls to be important when making a decision to buy, sell or hold Sino-Forest securities. Sino-

Forest's disclosure was wholly inadequate and failed to reveal that the recording of purchases, sales and settlement of standing timber in the BVI Model was concentrated solely in Mr. Hung. Further, the scope of the BVI Model, which accounted for approximately 70% of Sino-Forest revenue between 2007 and 2010, was not disclosed. This effectively concealed the significance of this concentration of duties.

- [76] Mr. Chan could easily have remediated this weakness but chose not to do so, because it was integral to the Standing Timber Fraud. He knew the disclosure was wholly inadequate. Mr. Chan authorized and permitted the making of materially misleading statements by Sino-Forest regarding the material weakness in its internal controls. His rationale for not disclosing this weakness was to perpetuate the Standing Timber Fraud.
- [77] While Mr. Hung cannot be held responsible for Mr. Chan's failure to remediate this weakness, he acquiesced in this failure. In addition, by virtue of his position on the Disclosure Committee, as a senior officer of Sino-Forest and his extensive education, Mr. Hung acquiesced in the making of materially misleading statements by Sino-Forest regarding the material weakness in its internal controls in its financial statements.

C. Greenheart

- [78] The Merits Panel found that Mr. Chan was the beneficial owner of Fortune Universe and Montsford, which together owned 30% of Greenheart Resources, and received over US \$22 million in cash and securities in consideration for the Greenheart Transactions. Mr. Chan did not disclose his 30% interest through nominees in Greenheart, nor did he disclose his interest in the Second and Third Transactions to the Board of Directors or in Sino-Forest financial statements. In fact, Mr. Chan actively concealed his interests by hiding behind two nominee companies he organized in the names of friends and which were administered over the years by his executive assistant.
- [79] The omission of disclosure of Mr. Chan's interest is a dishonest act. Since investors were entitled to rely on Sino-Forest's public disclosure before risking their funds, the omission of disclosure of Mr. Chan's interest in Greenheart Resources and the Transactions created a risk to investors, who were unable to make informed decisions.
- [80] The Merits Panel found that Mr. Chan did not perpetrate this fraud on a whim. Mr. Chan was the beneficial owner of Fortune Universe and Montsford by at least 2005, a year before Sino-Forest made its initial investment. Through his long-time assistant he directed the establishment and organization of these companies. He chose their nominee owners and controlled the material decisions. Even the company seals were kept in his assistant's possession; these companies could not conduct important business without her approval. Mr. Chan carefully controlled the disposition of funds received from the Transactions, and the sales and use of proceeds of the Sino-Forest shares received from the Transactions. This fraud took years to plan and execute. The premeditation involved on the part of Mr. Chan is evident from the document trail created in execution of the fraud.
- [81] Mr. Chan did not disclose his interest in Greenheart Resources to the Board of Directors. In contrast, another director who had a 5% interest did disclose his interest and this interest was disclosed in the Impugned Disclosure Documents. Moreover, Mr. Chan actively hid his ownership by using nominee companies to further obscure his interest. By using Fortune Universe and Montsford, there is no doubt Mr. Chan was deliberate in his deceit and dishonesty.
- [82] Sino-Forest failed to disclose Mr. Chan's 30% interest in Greenheart Resources and the Second and Third Transactions in the Impugned Disclosure Documents. The Merits Panel found that these were facts a reasonable investor would consider important in making an investment decision with respect to Sino-Forest securities. The Merits Panel found that Mr. Chan, as Chairman and CEO, authorized, permitted and acquiesced in Sino-Forest's making of materially misleading statements.

D. Misleading Staff

- [83] The Merits Panel found that Mr. Chan, Mr. Ip, Mr. Hung, Mr. Yeung and Mr. Ho misled Staff during interviews conducted as part of Staff's investigation. Mr. Chan unequivocally denied that Sino-Forest had control over Yuda Wood, despite at least three opportunities to tell the truth. Mr. Yeung misled Staff regarding his involvement in the creation and capitalization of Yuda Wood. Mr. Ho misled Staff regarding the control he had over Yuda Wood's bank accounts. Yuda Wood played a significant role in the Standing Timber Fraud. It was Sino-Forest's largest supplier in the BVI Model, at 20% of total BVI transaction value during the Material Time.

[84] Mr. Ip and Mr. Hung misled Staff with respect to the Deceitful Documentation Process. Mr. Ip misled Staff with respect to Sino-Forest's role in the creation and issuance of Forestry Bureau Confirmations. Mr. Hung misled Staff with respect to the timing of payments made pursuant to the purchase contracts.

IV. SANCTIONS

[85] Section 127 of the Act establishes the sanctions the Commission may impose, which include administrative penalties, disgorgement and various prohibitions. The respondents and Staff agree on the appropriate prohibitions to be ordered, but disagree on the appropriate administrative penalties and orders for disgorgement.

[86] In determining the appropriate sanctions to be imposed, we are guided by the purposes of the Act, which include: protecting investors from unfair, improper or fraudulent practices and fostering fair and efficient capital markets and confidence in those markets.

[87] The sanctions we impose must be preventative and protective, with a view to preventing likely future harm to Ontario's capital markets. They are not intended to be punitive.³

[88] The Commission has considered a non-exhaustive list of factors in determining which sanctions are appropriate, including the following which were referred to by the parties in their submissions:

- a. the seriousness of the conduct;
- b. the respondents' experience in the marketplace;
- c. the level of the respondents' activity in the marketplace;
- d. whether or not there has been a recognition by the respondents of the seriousness of the improprieties;
- e. the size of any profit made or loss avoided from the illegal conduct;
- f. the restraint any sanctions may have on the ability of the respondents to participate without check in the capital markets;
- g. the effect any sanction might have on the livelihood of the respondents;
- h. the shame or financial pain that any sanction would reasonably cause the respondents;
- i. the respondents' ability to pay any financial sanctions;
- j. the reputation and prestige of the respondents;
- k. whether or not the sanctions imposed may serve to deter not only those involved in the case being considered, but any like-minded people from engaging in similar abuses of the capital markets (specific and general deterrence); and
- l. mitigating factors, including the respondents' remorse.⁴

[89] With respect to specific and general deterrence, the Supreme Court of Canada has recognized that general deterrence is an "appropriate, and perhaps necessary, consideration in making orders that are both protective and preventative."⁵ "The weight given to general deterrence will vary from case to case and is a matter within the discretion of the Commission."⁶

[90] The sanctions we impose must be proportionate to the circumstances and the conduct of each respondent. Given that the consequences of the respondents' misconduct contributed to the collapse of a multi-billion dollar public company, and are without precedent in Commission proceedings, the quantum of prior administrative penalties provide only a very limited basis for comparison.

³ *Mithras Management Ltd (Re)* (1990), 13 OSCB 1600 at 1610-1611; *Committee for Equal Treatment of Asbestos Minority Shareholders v Ontario (Securities Commission)*, 2001 SCC 37, [2001] 2 SCR 132 at paras 42-43.

⁴ *Belteco Holdings Inc (Re)* (1998), 21 OSCB 7743 at 7746; *MCJC Holdings Inc (Re)* (2002), 25 OSCB 1133 at 1135; *Sabourin (Re)*, 2010 ONSEC 10, 33 OSCB 5299 (*Sabourin*) at para 60.

⁵ *Cartaway Resources Corp (Re)*, 2004 SCC 26, [2004] 1 SCR 672 (*Cartaway*) at para 60.

⁶ *Cartaway* at para 64.

A. Administrative Penalties

- [91] Administrative penalties are intended to achieve both specific and general deterrence.⁷ An administrative penalty may not achieve these objectives if it is outweighed by the benefit wrongdoers gain from non-compliance with the Act.⁸ However, an undue emphasis on general deterrence may result in an administrative penalty that is disproportionate.⁹
- [92] The Commission has imposed significant administrative penalties for fraudulent conduct, particularly where the conduct takes place over an extended period of time.¹⁰
- [93] The Commission may impose an administrative penalty of up to \$1 million for each failure to comply with Ontario securities law.
- [94] Staff seek the following administrative penalties:
- a. Mr. Chan – a total of \$5,000,000, being \$1,000,000 for each of the categories of conduct found by the Merits Panel – Standing Timber Fraud, standing timber misleading disclosure, Greenheart Transactions fraud, Greenheart Transactions misleading disclosure, and misleading Staff;
 - b. Mr. Ip – a total of \$2,650,000, being \$1,000,000 for the Standing Timber Fraud, \$900,000 for standing timber misleading disclosure, and \$750,000 for misleading Staff;
 - c. Mr. Hung – a total of \$2,250,000, being \$1,000,000 for the Standing Timber Fraud, \$750,000 for standing timber misleading disclosure, and \$500,000 for misleading Staff;
 - d. Mr. Ho – a total of \$2,000,000, being \$1,000,000 for the Standing Timber Fraud, \$500,000 for standing timber misleading disclosure, and \$500,000 for misleading Staff; and
 - e. Mr. Yeung – \$300,000 for misleading Staff.
- [95] The respondents submit that lower total administrative penalties are appropriate, but do not allocate those administrative penalties among the categories of misconduct found by the Merits Panel. The respondents submit that the following administrative penalties are appropriate:
- a. Mr. Chan – \$1,750,000;
 - b. Mr. Ip – \$500,000;
 - c. Mr. Hung – \$500,000;
 - d. Mr. Ho – \$500,000; and
 - e. Mr. Yeung – no administrative penalty.
- [96] There is common ground among Staff and the respondents that overall sanctions must be considered in respect of each respondent and they must be proportionate to the conduct and circumstances of each of them. Financial sanctions must also bear an appropriate relationship to other sanctions imposed by the Commission.
- [97] In support of these administrative penalties, Staff emphasize the seriousness of the respondents' conduct, and the need for specific and general deterrence. In respect of Mr. Chan, Mr. Ip, Mr. Hung and Mr. Ho, Staff note the lengthy period of time over which their conduct occurred and their repeated breaches of the Act.
- [98] The respondents submit that Staff are placing undue emphasis on general deterrence. They assert that amounts sought by Staff are not required for specific deterrence given the respondents' current circumstances.
- [99] The respondents' conduct led to a market reaction resulting in a loss of approximately CA \$6 billion in equity market capitalization to investors. We need to take into account the enormity of the effects of the conduct of the respondents. In addition, it should be considered that we do not generally apply our penalties to each misstatement or instance of

⁷ *Limelight Entertainment Inc (Re)*, 2008 ONSEC 28, 31 OSCB 1727 (**Limelight**) at para 67.

⁸ *Rowan (Re)*, 2009 ONSEC 46, 33 OSCB 91 at paras 73-74.

⁹ *Cartaway* at para 64.

¹⁰ See e.g. *Phillips (Re)*, 2015 ONSEC 36, 38 OSCB 9311 at paras 58 and 69; *Sextant Capital Management Inc (Re)*, 2012 ONSEC 17, 35 OSCB 5213 at paras 34-35; *Sabourin* at paras 76-86; *Al-Tar Energy Corp (Re)*, 2011 ONSEC 1, 34 OSCB 447 (**Al-Tar**) at paras 47-57.

fraudulent conduct occurring even over an extended period of time, as here. If that approach were taken, the sanctions sought by Staff would be multiplied many times over since the misstatements and fraudulent acts occurred over years to the point where a CA \$6 billion market loss was precipitated, separate and apart from losses on outstanding debt. In light of that history, for key perpetrators in such a downfall, a \$1 million dollar maximum administrative penalty is not disproportionate. There are no Commission proceedings involving consequences to investors based on overall financial losses as severe as in this case.

- [100] The Standing Timber Fraud was an elaborate scheme, executed over many years, to defraud investors. This fraud relates to the majority of the assets and revenue of Sino-Forest. Mr. Chan, Mr. Ip, Mr. Ho and Mr. Hung orchestrated a complex web of deceit with fictitious transactions and false documents. They misled investors about the ownership of standing timber, and how and when revenue was recognized. They concealed control and related party relationships with supposedly arms' length suppliers and customers. They misled the Board of Directors, auditors and investors. Each quarter they certified and sub-certified that Sino-Forest disclosure was true when they knew it was not. Over many years, they spun an intricate network of misstatements that resulted in the loss of CA \$6 billion in equity market capitalization, in addition to bond investor losses. They did so with full subjective knowledge; they knew their conduct was deceitful and put investors' pecuniary interests at risk. They engaged in repeated and ongoing deception.
- [101] As well, Mr. Chan fraudulently concealed his interest in Greenheart Resources from the Board and investors, and authorized and permitted Sino-Forest's misleading disclosure. It is serious misconduct for any officer; Mr. Chan was not only CEO but Chairman of the Board and was looked to as the 'visionary' for the enterprise.
- [102] Misleading Staff is a particularly offensive violation of the public interest. In order for the Commission to fulfill its mandate and ensure confidence in capital markets, those involved in the capital markets must provide full and accurate information to the Commission.¹¹
- [103] The respondents submit that their misleading statements to Staff do not merit more than a nominal administrative penalty, because Staff's investigation was not obstructed by their conduct. We reject this submission. The Merits Panel found that the respondents misled Staff. We cannot speculate about the state of Staff's knowledge at the time the statements were made, and be more lenient if we think that Staff's investigations were not prolonged by the misleading statement. We rarely if ever have a line of sight into Staff's investigations to establish the impact a misstatement will have on Staff's inquiries or the establishment of the proof they will need to advance at a hearing.
- [104] We are cognizant of the fact that prohibitions on market participation, including director and officer bans, will have very little deterrent effect since the respondents reside outside of North America and are very unlikely to seek to participate here again or be accepted in the Canadian business community. Specific and general deterrence requires substantial financial penalties to deter those who would target Ontario capital markets from outside of our jurisdiction. If such bans will, in particular circumstances, provide little deterrence, we must use financial penalties to fill this need and the quantum can then be appropriately larger than in cases where other tools will provide such deterrence. In this case, the administrative penalties we have determined to impose are required given both the magnitude of the consequences that flowed from the respondents' misconduct as well as the more limited deterrent effect market prohibitions will have.
- [105] The respondents submit that the principle of totality should be applied so as to reduce the administrative penalties. They submit that, notwithstanding our system of penalties for overall misconduct, as opposed to multiple counts for each and every instance of non-compliance, separate sanctions should not be imposed for the frauds and the materially misleading statements relating to the frauds. This would further reduce the consequences for misconduct that led to a massive corporate failure and are inappropriate in these circumstances. Fraud and misleading disclosures are discrete violations in this case. It makes no sense that a corporate officer who controls aspects of the issuer's disclosure record should not be separately sanctioned for authorizing misleading statements to be disseminated into the market when he or she knows them to be false. Their actions or failure to act are at the final stage where investor harm can be mitigated and their determination to make materially misleading statements needs to be separately sanctioned and deterred. Each and every misstatement provided a separate opportunity for each of these respondents to have changed course and correct the misstatement, and in each case, they failed to do so.
- [106] The respondents submit that the principle of parity should limit the administrative penalties ordered, because these penalties should be proportionate to the conduct of each respondent in the circumstances, and to administrative penalties imposed in Commission decisions involving similar conduct. The respondents submit that the administrative penalties sought by Staff are unprecedented, and are significantly higher than those imposed by the Commission for similar conduct. In particular, the respondents note that the highest administrative penalty that has been imposed by the Commission for misleading Staff is \$250,000.

¹¹ *Wilder v Ontario Securities Commission* (2001), 53 OR (3d) 159 (CA) at para 22.

- [107] Among the respondents, we do need to be mindful of parity of treatment and have analyzed the role and circumstances of each Respondent in that light.
- [108] Staff submit that Mr. Chan, Mr. Ip, Mr. Hung and Mr. Ho had experience in the marketplace through their senior positions with Sino-Forest, and that their experience is an aggravating factor. In contrast, the respondents submit that they lacked training regarding Ontario securities law despite their senior positions. Their lack of training, they submit, should be a mitigating factor in determining sanctions.
- [109] Mr. Chan, as CEO and founder, made the decision to issue securities in Ontario; he cannot now rely on his lack of knowledge. Moreover, he was in the best position to mandate that sufficient training be offered to Sino-Forest employees, and he did not. His submission holds no merit. As for Mr. Ip, Mr. Hung and Mr. Ho, we accept that there was limited evidence of formal training; however, knowledge of Ontario securities law was not required to know that the actual purchase, sales and settlement processes differed dramatically from what was disclosed to the Board, the auditors and ultimately, to investors in the financial statements. The respondents simply had to tell the truth – and they did not.
- [110] The respondents submit that their inability to pay the amounts sought by Staff should be taken into account, and that this factor supports reduced administrative penalties. Mr. Ip, Mr. Hung and Mr. Yeung submit that they supplied evidence that there is no likelihood they will be able to pay the administrative penalties sought by Staff. Mr. Ho submits that an inference should be drawn regarding his inability to pay given his compensation at Sino-Forest and the passage of time.
- [111] Ability to pay is an acknowledged sanctioning factor, but is not determinative. Its importance will vary from case to case and respondent to respondent. Mr. Chan did not provide evidence of his financial circumstances in that regard, so this factor was not considered in his case. For the others, we need to weigh the compelling need for general deterrence, among other factors, in relation to the remaining sanctioning factors, including ability to pay. Only with regard to Mr. Yeung did we find that his circumstances pointed to the appropriateness of a lower penalty on the grounds of inability to pay, bearing in mind his deteriorating health and the nature of his misconduct.
- [112] The respondents submit that they have expressed remorse in the circumstances. They do not feel responsible for investors' losses, but are concerned about what has happened to Sino-Forest and feel shame at being the subject of this proceeding. Staff submits that none of the respondents have expressed remorse, and any shame they have felt is a natural consequence of their conduct. We address the respondents' individual expressions of remorse or shame below.

1. Chan

- [113] The Merits Panel made certain over-arching findings regarding the conduct of Mr. Chan, who was a co-founder of Sino-Forest in 1992 and Chairman of the Board and Chief Executive Officer during the Material Time until his resignation on August 28, 2011.
- [114] First, that Mr. Chan “was the driver steering Sino-Forest’s business.” In this role, his conduct did not meet the standard of a reasonably competent Chief Executive Officer acting in the circumstances at the time.
- [115] Second, Mr. Chan’s role was not merely to be “working on the business” at a higher level of goal setting and strategy. The Merits Panel found that in addition to such a role, Mr. Chan “was in the business” and “he was also deeply involved in the day-to-day operations of Sino-Forest.”
- [116] Third, the Panel found that it was not appropriate in assessing Mr. Chan’s conduct to consider, as stated in the written submissions made on behalf of Mr. Chan in the Merits Hearing, the “significantly different business and cultural environment” particularly in the resource sector in China. Rather, the Merits Panel determined that:
- No matter what business Sino-Forest was engaged in, it was Chan’s responsibility to ensure that Sino-Forest complied with Province of Ontario securities legislation as set out in the Ontario *Securities Act*.
- [117] Fourth, the Merits Panel considered Mr. Chan’s submission that he lacked education regarding, and experience with, Ontario securities law, and found that did not diminish his obligation to comply with Ontario securities law.
- [118] Mr. Chan was the “ultimate and compensating control” over the transactions detailed in the Merits Decision. He was the ultimate “approver of all purchase contracts and the signatory on all sales contracts.”
- [119] Mr. Chan was responsible for oversight of the BVI Model and was the compensating control for the identified internal control weakness arising from a lack of segregation of duties in the recording of purchase and sale transactions and the settlement accounts in these transactions.

- [120] Three of the other respondents, all of whom were found to have engaged in fraud and other violations of Ontario securities law, reported directly to Mr. Chan.
- [121] The essence of the Standing Timber Fraud was the over-statement of assets and revenue resulting from the fraudulent scheme, which had three elements:
- a. undisclosed control of companies purportedly at arms' length to Sino-Forest;
 - b. a Deceitful Documentation Process; and
 - c. internal control weaknesses or failures.
- [122] Staff proved Mr. Chan's involvement in the fraudulent scheme in three distinct sets of transactions: (i) the 450 Transactions; (ii) the Gengma #1 Transactions; and (iii) the Gengma #2 Transactions.
- [123] The Merits Panel found that Mr. Chan knew that Sino-Forest controlled Yuda Wood, Sino-Forest's largest supplier and hid this information from investors and others involved in the disclosure process.
- [124] The Panel also found that Mr. Chan, along with Mr. Ip and Mr. Hung, were the key architects of the Deceitful Documentation Process. For Mr. Chan this was not only involvement in the design and supervision of the deceit, but included his approval of all sales and purchase transactions in the BVI Model. He was the signatory on all sales contracts in this channel. He hid the actual, Deceitful Documentation Process from the Company's board of directors, audit committee and auditors, placing investors at risk – a risk that materialized when these practices were called out by the Muddy Waters Report. Mr. Chan authorized payments before contracts were in place and instructed that plantation locations be kept secret, resulting in documentation that could not be properly used to verify transactions. He signed contracts after quarter ends in a manner inconsistent with the revenue recognition process disclosed in Sino-Forest's financial statements. He failed to disclose the crucial fact that BVI entities could not be the legal owner of the timber resources under the law of China. In three of the four frauds, used as illustrations of the Standing Timber Fraud in the Merits Decision (the Gengma #1 Transactions, the Gengma #2 Transactions and the 450 Transactions), fictitious transactions were implemented with the effect of inflating Sino-Forest's revenues with the knowledge and direction of Mr. Chan.
- [125] These fraudulent transactions resulted in materially misleading statements relating to the Company's assets and revenues being used in prospectuses and continuous disclosure documents provided to the marketplace and the Commission. The Merits Panel made findings quantifying the effects of these misleading disclosures on the financial position of the Company in each of these frauds. The 450 Transactions inflated revenue by US \$30 million or 6.4% in the fourth quarter of 2009. The Gengma #1 Transactions overstated the Company's revenue for 2010 by US \$231.3 million. The overstatement of revenues in the first and second quarters of 2010 was 29.3% and 51.6%, respectively. The Gengma #2 Transactions resulted in an overstatement between March 2008 and November 2009 of approximately US \$49.1 million.
- [126] Mr. Chan was responsible for the misleading disclosure of the Company's internal controls, deemed "wholly inadequate" by the Merits Panel, with regard to the concentration of duties with Mr. Hung in the BVI Model.
- [127] In the Greenheart Transactions, Mr. Chan engaged in fraud by concealing his interest in the transactions that resulted in control of Greenheart being acquired by Sino-Forest, and putting investors' pecuniary interests at risk.
- [128] Counsel for Mr. Chan argued that we should take into account that no financial loss was established as a result of this concealment and asked us to consider evidence offered in the Sanctions Hearing that the transactions were nonetheless at approximate fair value. The Merits Panel noted that Mr. Chan made extensive submissions on Greenheart's value, and found that it was not necessary for them to examine whether the price paid for Greenheart was reasonable or fair. For the reasons discussed below, we found Mr. Chan's evidence of fair value to be of virtually no probative value. In any event, it is pure speculation to say that the transaction may have been approved even if Mr. Chan's interest had been revealed.
- [129] Mr. Chan misled Staff about Sino-Forest's interest in Yuda Wood, completely denying the facts. These misleading statements are not excused or mitigated because Staff had other evidence of this concealed interest. It is an offence established by the misleading statement itself. This Panel will not consider speculation as to the extent to which this misleading statement may not have prolonged Staff's investigation where the misleading statement relates to a central aspect of the fraud perpetrated by the respondent.
- [130] There are no relevant mitigating factors. Mr. Chan's misconduct unquestionably involves among the most serious of harms to investors and confidence in the capital markets. The Standing Timber Fraud called into question ownership of

assets valued at over US \$2.4 billion and revenue in excess of US \$3.3 billion. The Standing Timber Fraud was central to the events causing the demise of Sino-Forest, resulting in equity investor losses of approximately CA \$6 billion. The three sets of fraudulent transactions in which Mr. Chan was found to have had an operational role establish his involvement in the most serious of wrongdoing. This fraud was carried forward in misleading statements to investors in numerous Commission-mandated disclosure documents. The fraud was facilitated by an internal control weakness that he caused to occur and which was withheld from public scrutiny. His failure to disclose his interest in the Greenheart Transactions was consistent with his willingness to hide important facts from investors and to put his self-interest ahead of investors, either by perpetuating a fraud or receiving direct, tangible gains.

- [131] Mr. Chan had extensive experience in the forestry industry in China, as well as a business background that was sufficiently extensive that he could reasonably be expected to recognize that the Standing Timber Fraud involved extremely serious wrongdoing. He was the CEO and Chairman of a very large international enterprise and a large capitalization TSX-listed company. He had the financial resources available to him to get advice based on a candid description of Sino-Forest's operations rather than misrepresentations and obfuscation of the truth.
- [132] Mr. Chan testified that he did nothing to cause Sino-Forest's demise but that it was caused by a series of actions not taken after he was relieved of his duties as CEO following the Muddy Waters Report. When asked what actions he would have taken instead, he replied he would have used the US \$1 billion cash available to buy back Sino-Forest stock in the market to demonstrate belief in the company.
- [133] In his Affidavit and evidence given at the Sanctions Hearing he did not recognize his own failings in his role as CEO and Chairman. Instead, he emphasized sadness and frustration at the events that occurred. Such a lack of acknowledgment is not an aggravating factor, and with multiple legal proceedings underway, he may well have had those proceedings in mind in framing his answers. We put no weight on this factor in this case.
- [134] Imposing the maximum available administrative penalties in this case is intended to deter others who might seek to target Ontario capital markets through fraudulent conduct and consequential violations of Ontario securities law. This will also deter Mr. Chan, although given the notoriety of this case, his personal loss of reputation is a powerful deterrent to him from re-entering our capital markets in any form.
- [135] Mr. Chan received high compensation, over CA \$22 million in cash compensation between 2007 and 2010, for his roles and benefited in that way, in addition to substantial sums from stock sales. Companies that Mr. Chan controlled also received over US \$22 million in cash and stock proceeds in connection with the Greenheart Transactions. He should not be rewarded because the fraud was detected and interrupted and he incurred losses on his Sino-Forest stock holdings, along with innocent public investors. Mr. Chan's assertions that there was no proof of loss to Sino-Forest in these transactions is not a factor that mitigates his receipt of substantial proceeds directly as a result of his deceit.
- [136] Mr. Chan did not provide evidence of his financial circumstances in an effort to mitigate sanctions.
- [137] We have determined that the following administrative penalties are appropriate:
- a. in respect of the Standing Timber Fraud, the maximum administrative penalty of \$1,000,000;
 - b. in connection with the materially misleading statements relating to the Standing Timber Fraud, the maximum administrative penalty of \$1,000,000;
 - c. in connection with the Greenheart Transactions fraud, the maximum administrative penalty of \$1,000,000;
 - d. in connection with the materially misleading statements relating to the Greenheart Transactions, the maximum administrative penalty of \$1,000,000; and
 - e. in connection with misleading Staff, the maximum administrative penalty of \$1,000,000.
- [138] These administrative penalties total \$5 million.

2. Ip

- [139] With respect to Mr. Ip's conduct, the Merits Panel found that he
- was intimately involved in virtually every aspect of the Standing Timber Fraud during the Material Time. He knowingly deceived Investors through his involvement in Sino-Forest's undisclosed control in companies with which it transacted and in the Deceitful Documentation Process.
- [140] He was found to have had oversight of the execution of all four of the illustrative frauds. Mr. Ip led employees of the Sino-Panel Group of companies in the fraudulent recording of transactions in the Four Frauds that resulted in Sino-Forest's overstatement of assets and revenue during the Material Time.
- [141] The Merits Panel found that Mr. Ip, by virtue of his control of critical aspects of the BVI Model, his participation in the design of the actual documentation process and his awareness that this process was deceitful, knew that Sino-Forest's financial statement disclosure was misleading. The Merits Panel found that Mr. Ip acquiesced in the making of materially misleading statements by Sino-Forest relating to ownership of assets and revenue recognition in Sino-Forest's misleading financial statements.
- [142] Mr. Ip was found by the Merits Panel to have misled Staff about the Deceitful Documentation Process. When questioned about the preparation of Forestry Bureau Confirmations, he misled Staff by underplaying Sino-Forest's control over this process.
- [143] Mr. Ip admits in his Affidavit submitted in the Sanctions Hearing to have received pre-tax compensation between 2008 and 2010 of over CA \$4 million.
- [144] Staff seeks the maximum administrative penalty in respect of the Standing Timber Fraud of \$1 million, \$900,000 in respect of the misleading disclosure to investors and \$750,000 in respect of misleading Staff. The aggregate sought is \$2,650,000.
- [145] We have determined that those amounts are appropriate.
- [146] The Standing Timber Fraud could not have occurred but for his involvement in the Deceitful Documentation Process. The consequences, as with Mr. Chan, were catastrophic. This penalty is appropriate and necessary as a matter of general deterrence to those who would target Ontario capital markets for fraudulent conduct, whether from outside or inside of Canada. This is especially the case where director and officer and trading bans will have a limited impact on a person unlikely to have any future in Canadian business activities.
- [147] It is Mr. Ip's evidence that he has been unemployed since his time at Sino-Forest, and that he currently has limited financial resources and assets. In light of the seriousness of Mr. Ip's conduct and the need to deter him and others from engaging in similar conduct, we do not place any weight on his evidence regarding his ability to pay monetary sanctions.
- [148] Mr. Ip admits to shame concerning these proceedings, but no remorse for having personally perpetrated these frauds and misconduct. He "sincerely do(es) not believe that (he) is responsible." He feels "wronged" because he was simply "following orders." He does not believe the CA \$6 billion loss was caused by his behavior and others in senior management, specifically Mr. Hung, Mr. Ho and Mr. Chan. Mr. Ip's expression of shame for what has befallen him is not an indication of remorse and will not act in mitigation of these sanctions.

3. Hung

- [149] In connection with the Standing Timber Fraud, Mr. Hung had a central role in, and controlled, the Deceitful Documentation Process, which included directing the settlement of receivables and payables before the execution of contracts, and the preparation and backdating of purchase and sales documentation. He signed sub-certifications each financial quarter that there were no misstatements or omissions in Sino-Forest's disclosure, when he knew the disclosures were misleading and could not properly be relied upon by investors. Since 2005, Mr. Hung was a member of Sino-Forest's Disclosure Committee, but allowed these materially misleading disclosures to persist. He also acquiesced in Sino-Forest's making of materially misleading statements with regard to its internal controls.
- [150] Mr. Hung was found by the Merits Panel to have misled Staff with respect to the Deceitful Documentation Process, including the timing of payments made on the verbal instructions of Mr. Ip without seeing the relevant purchase contracts. His fraudulent conduct touched on the vast majority of Sino-Forest's assets and revenues.
- [151] Like Mr. Ip, Mr. Hung expressed shame at being subject to the Commission proceedings and the allegations, but not remorse for the consequences of his actions. These statements are not mitigating factors. While Mr. Hung feels shame

for being a subject of these proceedings, when asked if he feels shame or remorse for the losses investors suffered, he replied: "No, I don't think I need to assume any responsibility there ... there were different investors in Sino-Forest and the investors would make their investments according to their wishes." (November 20, 2017 at 56). He does not believe he did anything wrong other than being too trusting of others, namely the in-house accountants. As he did during the Hearing on the Merits, Mr. Hung continued the same finger-pointing at others and assumed no responsibility himself.

- [152] It is Mr. Hung's evidence that he has limited means and employment prospects. While we agree that he is unlikely to find himself employed in Canadian business endeavors in the future, the magnitude of the fraud and misconduct in which he participated requires a strong message of general deterrence. We do not place any weight on his evidence of his inability to pay monetary sanctions.
- [153] Mr. Hung received substantial cash compensation, totalling approximately CA \$1.2 million between 2007 and 2010, as well as gains from stock sales.
- [154] The seriousness of Mr. Hung's role in the Standing Timber Fraud, in light of his financial experience and knowledge, merits the highest penalty and we have determined that a \$1,000,000 administrative penalty is appropriate.
- [155] His actions led to the making of materially misleading disclosures, which were exacerbated by his membership on the Company's Disclosure Committee. For this conduct we have determined that an administrative penalty of \$750,000 is appropriate.
- [156] Staff submit that we should impose an administrative penalty of \$500,000 on Mr. Hung for misleading staff. We have determined that \$250,000 is more appropriate, given that Mr. Hung admitted that the conduct that was the subject of the questions had occurred on more than one occasion and his lack of candor went only to the number of instances. With respect to Mr. Hung's responses to questions regarding his actions on Mr. Ip's instructions, his lack of candor is not as blatant as those of Mr. Chan and Mr. Ip.
- [157] The aggregate amount of the administrative penalties we have determined are appropriate is therefore \$2,000,000.

4. Ho

- [158] Mr. Ho, like Mr. Ip, was involved in the control Sino-Forest exercised over customers and suppliers, a central aspect of the Standing Timber Fraud. He exercised extensive financial control over Yuda Wood, its largest supplier. With his accounting background, he knew that this control and the resulting related party transactions called into question their legitimacy as reflected in Sino-Forest's disclosures. He provided sub-certifications that supported these misleading disclosures. He was a member of Sino-Forest's Disclosure Committee, but he allowed these misleading disclosures to continue uncorrected.
- [159] Mr. Ho misled Staff regarding Sino-Forest's control of Yuda Wood. He was involved in three of the Four Frauds. The Merits Panel found that he had less involvement in the BVI Model than Mr. Chan, Mr. Ip and Mr. Hung.
- [160] Mr. Ho received substantial cash compensation, totalling approximately CA \$1.2 million between 2007 and 2010, as well as gains from stock sales.
- [161] The magnitude of the fraud, the need for general deterrence, and Mr. Ho's actions despite his accounting experience require the imposition of significant administrative penalties.
- [162] We have determined that the administrative penalties of \$1,000,000 for the Standing Timber Fraud and \$500,000 for the materially misleading statements relating to the Standing Timber Fraud are appropriate. Mr. Ho's misstatements to Staff were clear and specific and deserve the proposed amount of \$500,000. The total of the administrative penalties we impose is \$2,000,000.

5. Yeung

- [163] Mr. Yeung was not an officer of Sino-Forest. Unlike Mr. Hung and Mr. Ho, he was not responsible for the financial aspects of Sino-Forest's business and was not on the Disclosure Committee, and he had no financial background. He was, however, involved with Yuda Wood and Kun'an, two suppliers to Sino-Forest found by the Merits Panel to be related to Sino-Forest. The Merits Panel concluded that "it is not clear he knew Investors' economic interests were put at risk by his conduct."

- [164] He was found to have misled Staff concerning his involvement in the capitalization of Yuda Wood.
- [165] Mr. Yeung submits that his health should be taken into consideration as a mitigating factor. Staff submit that Mr. Yeung's health did not mitigate his conduct, but recognize that his health may be a factor we consider in assessing sanctions. By way of Affidavit, Mr. Yeung provided evidence that he has life-threatening medical issues, which Staff do not contest. There is no reasonable probability that he will work again. He has very limited financial means.
- [166] Staff seek an administrative penalty for misleading Staff in the amount of \$300,000. We agree that general deterrence requires a penalty in this case given the importance of Yuda Wood in the frauds that were perpetrated. However, due to Mr. Yeung's uncontested medical condition, we impose a nominal administrative penalty as an expression of general deterrence of \$1,000.

B. Disgorgement

- [167] The Commission may order a person or company who has not complied with Ontario securities law to disgorge to the Commission any amounts obtained as a result of the non-compliance. In *Limelight*, the Commission described its authority to order disgorgement as follows:

[P]aragraph 10 of subsection 127(1) of the Act provides that disgorgement can be ordered with respect to "any amounts obtained" as a result of non-compliance with the Act. Thus, the legal question is not whether a respondent "profited" from the illegal activity but whether the respondent "obtained amounts" as a result of that activity. In our view, this distinction is made in the Act to make clear that all money illegally obtained from investors can be ordered to be disgorged, not just the "profit" made as a result of the activity. This approach also avoids the Commission having to determine how "profit" should be calculated in any particular circumstance. Establishing how much a respondent obtained as a result of his or her misconduct is a much more straightforward test.¹²

- [168] In *Phillips*, the Divisional Court noted that the wording of the disgorgement provision is broad; there is no limitation based on the individual's use of the funds obtained.¹³
- [169] The Commission has considered the following factors, in addition to the general sanctioning factors, when contemplating a disgorgement order:
- a. whether an amount was obtained by a respondent as a result of non-compliance with the Act;
 - b. the seriousness of the misconduct and the breaches of the Act and whether investors were seriously harmed;
 - c. whether the amount that a respondent obtained as a result of non-compliance with the Act is reasonably ascertainable;
 - d. whether the individuals who suffered losses are likely to be able to obtain redress; and
 - e. the deterrent effect of a disgorgement order on the respondents and other market participants.¹⁴
- [170] Staff seek disgorgement by Mr. Chan, Mr. Ip, Mr. Hung and Mr. Ho of the compensation they received from Sino-Forest between 2007 and 2010 in the form of salaries and bonuses.
- [171] Staff seek disgorgement by Mr. Chan of an additional \$38,181,282, which Staff submits is the total amount that Mr. Chan obtained through his conduct in respect of the Greenheart Transactions.
- [172] Staff do not seek disgorgement by Mr. Yeung.
- [173] Staff bear the onus of proving these amounts were obtained by the respondents "as a result of" their non-compliance with Ontario securities law.¹⁵
- [174] The respondents submit that no amounts should be disgorged by any of the respondents.

¹² *Limelight* at para 49.

¹³ *Phillips v Ontario Securities Commission*, 2016 ONSC 7901 (Div Ct) (*Phillips*) at para 71.

¹⁴ *Limelight* at para 52.

¹⁵ *Limelight* at para 53.

1. Greenheart Transactions

[175] Mr. Chan submits that no amounts should be disgorged in relation to Greenheart because no amount was obtained as a result of non-compliance with the Act. Mr. Chan's submissions rest principally on the approximate fair value opinion of Mr. Froese discussed below.

[176] Mr. Chan submits that while the Merits Panel found that Mr. Chan failed to disclose his beneficial interests in Fortune Universe and Montsford, there is no evidence that this non-disclosure resulted in any amounts obtained by him as the term is used in the Act. Mr. Chan submits that in these circumstances "the amount obtained as a result of non-compliance" is the amount Sino-Forest paid above the value of the Greenheart shares. Mr. Chan submits there is no evidence that Sino-Forest paid above the value of the Greenheart securities and relies on Mr. Froese's approximate fair value analysis.

[177] We dismiss Mr. Chan's submissions for two reasons.

[178] First, we put little weight on Mr. Froese's opinion for the reasons discussed below.

[179] Second, Mr. Chan's non-disclosure of his interest in Greenheart resulted in his beneficially owned companies, Fortune Universe and Montsford, realizing proceeds of CA \$38,181,282. Mr. Chan's personal endorsement of Greenheart to Sino-Forest's Board of Directors in 2007 undoubtedly had significant influence with the Board in approving the acquisition. But for Mr. Chan's presentation of this conflicted transaction without disclosing his personal interest in it, the opportunity would never have arisen, and Fortune Universe and Montsford would not have obtained the Sino-Forest shares at the time of the Second and Third Transactions in February 2009 and May 2010. It is incongruous to suggest Mr. Chan did not obtain these shares as a result of his non-disclosure of his interest in Greenheart, which put the pecuniary interests of investors at risk.

[180] Mr. Chan submits that that the increase in share value he realized at the time of sale had nothing to do with the findings in the Merits Decision that he failed to disclose his interest in Greenheart. Mr. Chan submits that in *Blue Gold*,¹⁶ the Commission held that disgorgement amounts should be calculated at the time of the breach without regard to any appreciation or diminution of value.

[181] In *Blue Gold*, Staff did not seek disgorgement of shares which were remuneration for consulting services not related to the fraud. In contrast, with respect to Sino-Forest, the shares obtained, and the increase in share value, were directly related to Mr. Chan's non-disclosure and the Standing Timber Fraud, respectively. It was Mr. Chan, through his assistant, who instructed that the shares obtained by Fortune Universe and Montsford be sold in February and March 2011, after they had substantially increased in value. The appreciation in Sino-Forest's share price was directly related to the fraudulent profits Sino-Forest recorded in its misleading financial statements.

[182] Mr. Chan also submits that there should be no disgorgement because the amounts sought by Staff are too remote so as to preclude them from having a sufficient causal connection to the breach.

[183] We find no merit in this argument. Mr. Chan's entire course of conduct, which encompasses fraud, misleading statements and non-disclosure over a lengthy period of time, is directly related to Sino-Forest's share price appreciation, and therefore to the entire sale proceeds of Sino-Forest shares by Fortune Universe and Montsford.

(a) Froese Evidence

[184] As discussed above, Mr. Chan submits investors suffered no losses as a result of his non-disclosure of his interest in Greenheart because Greenheart was acquired at approximate fair value. Again, we place little weight on the approximate fair value opinion. Sino-Forest's share price imploded just months after Mr. Chan, through his nominee companies, sold his shares to unsuspecting investors, who unquestionably suffered serious losses.

[185] Mr. Chan submits that in determining appropriate sanctions and costs, the Panel must go beyond his non-disclosure and consider the entirety of the evidence. Mr. Chan's evidence is that the Greenheart Transactions were "a good deal." To support his claim, Mr. Chan introduced the expert opinion of Mr. Ken Froese who concluded that the Greenheart Transactions were at approximate fair value.

[186] Mr. Froese testified that determining approximate fair value involves reviewing factors that are relevant in determining fair value and evaluating whether or not the transaction has occurred at or near that value. This is distinguished from fair value, which would involve an extensive process required in valuing a business, which Mr. Froese is not qualified to provide.

¹⁶ *Blue Gold Holdings Ltd (Re)*, 2016 ONSC 37, 39 OSCB 10177 (*Blue Gold*).

- [187] One factor in Mr. Froese's analysis was the Omnicorp/Greenheart share price (**094**) from January 2, 2009 to March 6, 2009 and March 1, 2010 to June 9, 2010. These two periods relate to the dates of the 2009 Transaction and the 2010 Transaction. However, the share price of 094 correlated closely with Sino-Forest's share price for a significant period of the Material Time. Indeed, following the release of the Muddy Waters Report, the 094 share price plunged, tracking the plunge in Sino-Forest's share price. Given that Sino-Forest's share price reflected the frauds described above, this factor is not useful in determining approximate fair value.
- [188] A second factor in Mr. Froese's analysis was whether independent directors opined on the transaction and/or the consideration paid. He failed to indicate in his report that it was the independent directors of Omnicorp, and not Sino-Forest, whose approval of the transaction assisted him in evaluating whether the transaction approximated fair value. There was no evidence that the Omnicorp directors were aware of Mr. Chan's fraudulent self-interest in the transaction. The Merits Panel has already found that the Sino-Forest directors were unaware of Mr. Chan's involvement because Mr. Chan failed to disclose it. There was no evidence regarding Omnicorp's process in evaluating the transaction, or the degree to which they relied on the share price ratio, which was affected by the Sino-Forest frauds. Therefore, this factor is not helpful in objectively determining approximate fair value.
- [189] A third factor was the consistency of the transaction with Sino-Forest's business strategy. While Mr. Froese was aware that Mr. Chan was regarded as the strategic 'visionary' involved in developing and implementing strategy, he did not consider how this influence weighed on the Board's decision to approve the acquisition. The link between Greenheart/Omicorp and Sino-Forest business strategy is difficult to discern: Omnicorp was a failing Hong Kong electronics business prior to its acquisition of the Suriname forestry assets of Greenheart. Omnicorp was not in the forestry business prior to Mr. Chan's involvement (as a hidden owner of Greenheart) in the acquisition. This factor is not useful in determining approximate fair value.
- [190] Fourth, Mr. Froese relied on the 2007 Poyry valuation which valued Greenheart at no less than US \$200 million. However, the valuation itself relied on a transaction for wood logs sold to Sino-Forest at US \$175 per cubic meter; Mr. Chan himself signed this agreement on behalf of one of Sino-Forest's subsidiaries but the logs were never delivered to Sino-Forest. Mr. Froese agreed that these facts would make him question the reliability of the Poyry valuation and thus its usefulness in determining approximate fair value.
- [191] Finally, Mr. Froese testified that there is no professional standard to determine approximate fair value but that it was a "professional judgment call." He further testified that the range of approximate fair value was within plus or minus 20 to 25 percent, and that it was a "pretty rough, rough range."
- [192] Given the limitations on Mr. Froese's analysis, the Panel places little weight on his opinion that the Greenheart Transactions approximated fair value.
- [193] Moreover, it is not relevant whether or not Greenheart was "a good deal", as Mr. Chan insists. Mr. Chan's deliberate concealment of his interests in Greenheart, and his complex web of nominees, friends and family members involved in order to further obscure his interest, speaks volumes of his dishonesty, deceit and fraud. That is what is relevant in our determination of sanctions. He unquestionably received the proceeds in cash and shares through his nominee companies that Staff seeks to disgorge. This consideration came to him from a transaction in which he fraudulently concealed his interest, and should therefore be disgorged. Mr. Froese's evidence does not alter this conclusion.
- [194] Mr. Chan should not be permitted to benefit from his breach of Ontario securities law, which was premeditated and egregious. We agree with Staff's submissions that Mr. Chan should be required to disgorge CA \$38,181,282.

2. Salary and Bonuses

- [195] Staff seek the disgorgement by Mr. Chan, Mr. Ip, Mr. Hung and Mr. Ho of the compensation they received from Sino-Forest between 2007 and 2010 in the form of salaries and bonuses, in the following amounts:
- a. Mr. Chan – \$22,106,971;
 - b. Mr. Ip – \$1,859,710;
 - c. Mr. Hung – \$1,286,373; and
 - d. Mr. Ho – \$1,214,883.
- [196] The respondents submit that Staff has not established that these amounts were obtained as a result of the respondents' conduct. We disagree.

- [197] As a result of the respondents' conduct, approximately 70% of Sino-Forest's total timber holdings by hectare and approximately 70% of the revenue the company recognized between 2007 and 2010 cannot be verified. The Merits Panel found there was no evidence of the existence of the BVI assets that Sino-Forest valued at US \$2.9 billion on its 2010 financial statements. Following the Muddy Waters Report, Sino-Forest's equity market capitalization collapsed.
- [198] During the time that they caused Sino-Forest to record unverifiable assets and revenue, the respondents obtained compensation as officers of Sino-Forest. But for their conduct, they would not have received that compensation, as evidenced by the collapse of the company and the delisting of Sino-Forest's shares once their conduct was revealed.
- [199] The respondents submit that there is evidence of "real job duties" performed by them separate and apart from their misconduct, and the compensation for which Staff seeks disgorgement was in respect of those "real job duties" and not their misconduct. They point to the independence of the Compensation Committee and the public disclosure of the compensation criteria in support of this submission.
- [200] The respondents' submissions ignore that their misconduct resulted in the majority of Sino-Forest's revenue and assets being unverifiable, and contributed to investors losing billions of dollars. Neither those investors nor the Compensation Committee were aware of the respondents' misconduct.
- [201] The Commission may order full disgorgement of the amounts obtained regardless of how those funds were used.¹⁷ The Commission has repeatedly ordered full disgorgement of the amounts obtained from investors.¹⁸ Staff could have sought disgorgement of the amounts obtained from investors during the Material Time. Instead, Staff seeks disgorgement of the respondents' compensation.
- [202] The respondents rely on *Sabourin* in support of their submission that the Commission may not order disgorgement of salary. In *Sabourin*, the Commission did not order one of the respondents to disgorge his salary. The Commission may exercise its discretion not to order disgorgement of the full amount. *Sabourin* is an example of the Commission doing so.¹⁹ The Commission did not order the respondent Irwin to disgorge his salary because "[h]is role was primarily administrative and he appears to have acted only at the specific direction of Sabourin."²⁰ In contrast, the Commission ordered the respondent Sabourin to make full disgorgement. *Sabourin* does not support the respondents' submission that the Commission may not order disgorgement of salary. To the contrary, in respect of its conclusion regarding the respondent Irwin, the Commission stated "[i]n coming to that conclusion, we should not be taken to have concluded that a person paid a salary can never be held to have obtained ... such amounts as a result of their non-compliance."²¹
- [203] The respondents obtained their salaries and bonuses during the Material Time as a result of their non-compliance with Ontario securities law. Therefore, they must disgorge their salaries and bonuses in the following amounts: Mr. Chan – \$22,106,971; Mr. Ip – \$1,859,710; Mr. Hung – \$1,286,373; and Mr. Ho – \$1,214,883.

C. Prohibitions on Market Participation

- [204] There was no disagreement between Staff and the respondents regarding the imposition of the participation bans. Although it is unlikely that any of the respondents will seek to enter the Canadian capital markets again, the public interest requires that this be put beyond the slightest doubt. For that reason, we impose the following non-financial sanctions on the respondents:
- a. an order that trading in any securities by each of them cease permanently;
 - b. an order that the acquisition of any securities by each of them is prohibited permanently;
 - c. an order that any exemptions contained in Ontario securities law do not apply to each of them permanently;
 - d. an order that each of them be reprimanded;
 - e. an order that each of them resign any positions that they hold as a director or officer of an issuer, registrant or investment fund manager;

¹⁷ *Phillips* at para 71.

¹⁸ See e.g. *Phillips* at paras 79-80, *Limelight* at para 61, and *Al-Tar* at para 71.

¹⁹ *Phillips (Re)*, 2015 ONSEC 36, 38 OSCB 9311 at para 35.

²⁰ *Sabourin* at para 73.

²¹ *Sabourin* at para 73.

- f. an order that each of them is prohibited from becoming or acting as a director or officer of any issuer, registrant or investment fund manager permanently; and
- g. an order that each of them be prohibited permanently from becoming or acting as a registrant, as an investment fund manager, or as a promoter.

V. COSTS

- [205] Section 127.1 of the Act authorizes the Commission to order a respondent to pay the costs of an investigation and the proceeding that follows it if the respondent has been found to have contravened Ontario securities law.
- [206] Helpfully, Staff and the respondents made a joint submission regarding costs, which we find to be reasonable. We note that Staff has agreed not to seek costs from Mr. Yeung, Mr. Chan, Mr. Ip, Mr. Hung and Mr. Ho shall pay costs as follows:
- a. Mr. Chan shall pay \$2,038,704 of the costs of the investigation and hearing;
 - b. Mr. Ip shall pay \$1,529,028 of the costs of the investigation and hearing, for which he shall be jointly and severally liable with Mr. Chan;
 - c. Mr. Hung shall pay \$1,019,352 of the costs of the investigation and hearing, for which he shall be jointly and severally liable with Mr. Chan and Mr. Ip; and
 - d. Mr. Ho shall pay \$509,676 of the costs of the investigation and hearing, for which he shall be jointly and severally liable with Mr. Chan, Mr. Ip and Mr. Hung.

VI. IMPACT OF OTHER JUDGMENTS

- [207] On March 14, 2018, the Superior Court of Justice in *Borelli, in his capacity as trustee of the SFC Litigation Trust v. Chan*, ordered Mr. Chan to pay US \$2,627,478,000 (**SFC Litigation Trust Order**). The conduct at issue in that proceeding overlaps to a significant degree with Mr. Chan's misconduct in this proceeding.
- [208] A class action brought against Mr. Chan by Sino-Forest shareholders – *The Trustees of the Labourers' Pension Fund of Central and Eastern Canada et al v Sino-Forest Corp et al* – is pending in the Superior Court of Justice (**Shareholders Class Action**).
- [209] To the extent that Mr. Chan makes payments in respect of SFC Litigation Trust Order or a final order in the Shareholders Class Action, these amounts should properly be credited against the disgorgement order we make against Mr. Chan. The Commission should not, in this type of case, compete with a broad class of harmed investors for amounts we have ordered to be disgorged. The respondents have urged us to suspend the ability to collect the disgorged amounts until these cases are reduced to absolutely final judgments. We disagree. Any litigation matter can take many turns and we do not wish to prevent Staff from exercising its judgment in how best to proceed in the coordination of these matters.

VII. CONCLUSION AND ORDER

- [210] With this sanctions decision, Commission proceedings involving these respondents are concluded. The duplicity demonstrated by these respondents in their actions resulting in the collapse of Sino-Forest is among the most serious misconduct engaged in by respondents in Commission proceedings, and especially by senior officers of a public company, including Mr. Chan, the purported 'visionary' who chose to betray the trust of the investors, employees and many other stakeholders of the company he led.
- [211] These proceedings have been very protracted due to the complexity of the misconduct, the extent of evidence, the location of witnesses and many other factors. Nonetheless, this process has moved forward to this conclusion in a determined fashion, ensuring that these egregious facts and the sanctions that have been imposed will not be lost on the respondents and others that seek to target Canadian capital markets.
- [212] For all of these reasons, the following orders are in the public interest:
- a. Pursuant to paragraph 2 of subsection 127(1) of the Act, Mr. Chan, Mr. Ip, Mr. Hung, Mr. Ho and Mr. Yeung are permanently prohibited from trading in any securities;
 - b. Pursuant to paragraph 2.1 of subsection 127(1) of the Act, Mr. Chan, Mr. Ip, Mr. Hung, Mr. Ho and Mr. Yeung are permanently prohibited from acquiring any securities;

- c. Pursuant to paragraph 3 of subsection 127(1) of the Act, all exemptions contained in Ontario securities law shall not apply to Mr. Chan, Mr. Ip, Mr. Hung, Mr. Ho and Mr. Yeung permanently;
- d. Pursuant to paragraphs 7, 8.1 and 8.3 of subsection 127(1) of the Act, Mr. Chan, Mr. Ip, Mr. Hung, Mr. Ho and Mr. Yeung shall resign from any positions they hold as a director or officer of any issuer, registrant or investment fund manager;
- e. Pursuant to paragraphs 8, 8.2 and 8.4 of subsection 127(1) of the Act, Mr. Chan, Mr. Ip, Mr. Hung, Mr. Ho and Mr. Yeung are permanently prohibited from becoming or acting as a director or officer of any issuer, registrant or investment fund manager;
- f. Pursuant to paragraph 8.5 of subsection 127(1) of the Act, Mr. Chan, Mr. Ip, Mr. Hung, Mr. Ho and Mr. Yeung are permanently prohibited from becoming or acting as a registrant, an investment fund manager or a promoter;
- g. Pursuant to paragraph 9 of subsection 127(1) of the Act:
 - i. Mr. Chan shall pay an administrative penalty of \$5,000,000;
 - ii. Mr. Ip shall pay an administrative penalty of \$2,650,000;
 - iii. Mr. Hung shall pay an administrative penalty of \$2,000,000;
 - iv. Mr. Ho shall pay an administrative penalty of \$2,000,000; and
 - v. Mr. Yeung shall pay an administrative penalty of \$1,000;
- h. Pursuant to paragraph 10 of subsection 127(1) of the Act:
 - i. Mr. Chan shall disgorge to the Commission \$60,288,253;
 - ii. Mr. Ip shall disgorge to the Commission \$1,859,710;
 - iii. Mr. Hung shall disgorge to the Commission \$1,286,373; and
 - iv. Mr. Ho shall disgorge to the Commission \$1,214,883;
- i. Each of the payments in paragraphs (g) and (h) is designated for allocation or use by the Commission in accordance with subclause 3.4(2)(b)(i) or (ii) of the Act;
- j. Pursuant to section 127.1 of the Act, the respondents shall pay costs to the Commission of \$5,096,760, as follows:
 - i. Mr. Chan shall pay costs to the Commission of \$2,038,704;
 - ii. Mr. Ip shall pay costs to the Commission of \$1,529,028, for which he shall be jointly and severally liable with Mr. Chan;
 - iii. Mr. Hung shall pay costs to the Commission of \$1,019,352, for which he shall be jointly and severally liable with Mr. Chan and Mr. Ip; and
 - iv. Mr. Ho shall pay costs to the Commission of \$509,676, for which he shall be jointly and severally liable with Mr. Chan, Mr. Ip and Mr. Hung; and
- k. Any payments made by Mr. Chan in respect of the SFC Litigation Trust Order or any final order in the Shareholders Class Action shall be credited against the disgorgement order against Mr. Chan in paragraph (h)(i).

Dated at Toronto this 9th day of July 2018

“D. Grant Vingoe”

“Deborah Leckman”

“Garnet W. Fenn”

Chapter 4

Cease Trading Orders

4.1.1 Temporary, Permanent & Rescinding Issuer Cease Trading Orders

Company Name	Date of Temporary Order	Date of Hearing	Date of Permanent Order	Date of Lapse/Revoke
THERE IS NOTHING TO REPORT THIS WEEK.				

Failure to File Cease Trade Orders

Company Name	Date of Order	Date of Revocation
ALQ Gold Corp.	05 July 2018	09 July 2018
Future Farm Technologies Inc.	05 July 2018	
Rockwell Diamonds Inc.	05 July 2018	
Sage Gold Inc.	09 July 2018	
Tethys Petroleum Limited	29 June 2018	

4.2.1 Temporary, Permanent & Rescinding Management Cease Trading Orders

Company Name	Date of Order	Date of Lapse
Agility Health, Inc.	01 May 2018	04 July 2018
Sage Gold Inc.	01 May 2018	09 July 2018

4.2.2 Outstanding Management & Insider Cease Trading Orders

Company Name	Date of Order or Temporary Order	Date of Hearing	Date of Permanent Order	Date of Lapse/ Expire	Date of Issuer Temporary Order
Performance Sports Group Ltd.	19 October 2016	31 October 2016	31 October 2016		

Company Name	Date of Order	Date of Lapse
Agility Health, Inc.	01 May 2018	04 July 2018
Katanga Mining Limited	15 August 2017	
Sage Gold Inc.	01 May 2018	09 July 2018

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Chapter 7

Insider Reporting

This chapter is available in the print version of the OSC Bulletin, as well as as in Carswell's internet service SecuritiesSource (see www.carswell.com).

This chapter contains a weekly summary of insider transactions of Ontario reporting issuers in the System for Electronic Disclosure by Insiders (SEDI). The weekly summary contains insider transactions reported during the seven days ending Sunday at 11:59 pm.

To obtain Insider Reporting information, please visit the SEDI website (www.sedi.ca).

Chapter 11

IPOs, New Issues and Secondary Financings

INVESTMENT FUNDS

Issuer Name:

AlphaDelta Canadian Focused Equity Class
AlphaDelta Growth of Dividend Income Class
AlphaDelta Tactical Growth Class
Qwest Energy Canadian Resource Class
Principal Regulator – British Columbia

Type and Date:

Amended and Restated to Prelim or Combined Prelim and
Pro Forma Simplified Prospectus dated July 5, 2018
NP 11-202 Preliminary Receipt dated July 9, 2018

Offering Price and Description:

–

Underwriter(s) or Distributor(s):

N/A

Promoter(s):

Qwest Investment Fund Management Ltd.

Project #2785166

Issuer Name:

AlphaDelta Canadian Growth of Dividend Income Class
Principal Regulator – British Columbia

Type and Date:

Preliminary Simplified Prospectus dated July 5, 2018
NP 11-202 Preliminary Receipt dated July 9, 2018

Offering Price and Description:

–

Underwriter(s) or Distributor(s):

N/A

Promoter(s):

Qwest Investment Fund Management Ltd.

Project #2793579

Issuer Name:

Fidelity Special Situations Fund
Fidelity American Disciplined Equity® Fund
Fidelity U.S. Dividend Registered Fund
Fidelity AsiaStar® Fund
Fidelity Emerging Markets Fund
Fidelity Far East Fund
Fidelity Global Concentrated Equity Fund
Fidelity International Concentrated Equity Fund
Fidelity Japan Fund
Fidelity Technology Innovators Fund
Fidelity Global Monthly Income Currency Neutral Fund
Fidelity Tactical Strategies Fund
Fidelity NorthStar® Balanced Fund
Fidelity Global Balanced Portfolio
Fidelity Global Growth Portfolio
Fidelity ClearPath® 2010 Portfolio
Fidelity ClearPath® Income Portfolio
Fidelity Tactical Fixed Income Fund
Principal Regulator – Ontario

Type and Date:

Amendment #4 to Final Simplified Prospectus and
Amendment #7 to Annual Information Form dated July 3,
2018

Received on July 4, 2018

Offering Price and Description:

–

Underwriter(s) or Distributor(s):

Fidelity Investments Canada ULC
Fidelity Investments Canada Limited

Promoter(s):

June 4, 2018

Project #2675619

Issuer Name:

Fidelity Canadian Disciplined Equity® Class
Fidelity Dividend Class
Fidelity Greater Canada Class
Fidelity American Disciplined Equity® Class
Fidelity Event Driven Opportunities Class
Fidelity AsiaStar® Class
Fidelity Far East Class
Fidelity Global Dividend Class
Fidelity Global Concentrated Equity Class
Fidelity NorthStar® Currency Neutral Class
Fidelity International Growth Class
Principal Regulator – Ontario

Type and Date:

Amendment #1 to Final Simplified Prospectus and
Amendment #3 to Annual Information Form dated July 3,
2018

Received on July 4, 2018

Offering Price and Description:

–

Underwriter(s) or Distributor(s):

N/A

Promoter(s):

Fidelity Investments Canada ULC

Project #2729743

Issuer Name:

Fidelity International Concentrated Equity Currency Neutral
Fund
Principal Regulator – Ontario

Type and Date:

Amendment #1 to Final Simplified Prospectus dated July 3,
2018

Received on July 4, 2018

Offering Price and Description:

–

Underwriter(s) or Distributor(s):

N/A

Promoter(s):

Fidelity Investments Canada ULC

Project #2674370

Issuer Name:

Franklin Target Return Fund
Principal Regulator – Ontario

Type and Date:

Amendment #1 to Final Long Form Prospectus dated July
6, 2018

Received on July 9, 2018

Offering Price and Description:

–

Underwriter(s) or Distributor(s):

Franklin Templeton Investments Corp.

Promoter(s):

Franklin Templeton Investments Corp.

Project #2732278

Issuer Name:

Hamilton Capital Australian Financials Yield ETF
Hamilton Capital Canadian Bank Dynamic-Weight ETF
Hamilton Capital European Financials ETF
Hamilton Capital Global Bank ETF
Hamilton Capital Global Financials Yield ETF (formerly
Hamilton Capital Higher Yielding Financials ETF)
Hamilton Capital International Financials ETF
Hamilton Capital U.S. Mid-Cap Financials ETF (USD)
Principal Regulator – Ontario

Type and Date:

Combined Preliminary and Pro Forma Long Form
Prospectus dated July 4, 2018

NP 11-202 Preliminary Receipt dated July 5, 2018

Offering Price and Description:

Class E units

Underwriter(s) or Distributor(s):

N/A

Promoter(s):

Hamilton Capital Partners Inc.

Project #2793218

Issuer Name:

Horizons Robotics and Automation Index ETF
Principal Regulator – Ontario

Type and Date:

Amendment #2 to Final Long Form Prospectus dated July
4, 2018

Received on July 6, 2018

Offering Price and Description:

–

Underwriter(s) or Distributor(s):

N/A

Promoter(s):

HORIZONS ETFs MANAGEMENT (CANADA) INC.

Project #2732348

Issuer Name:

Manulife Multifactor Canadian SMID Cap Index ETF
Manulife Multifactor Emerging Markets Index ETF
Manulife Multifactor U.S. Small Cap Index ETF
Principal Regulator – Ontario

Type and Date:

Combined Preliminary and Pro Forma Long Form
Prospectus dated June 29, 2018

NP 11-202 Preliminary Receipt dated July 3, 2018

Offering Price and Description:

Unhedged Units and Hedged Units

Underwriter(s) or Distributor(s):

Manulife Asset Management Limited

Promoter(s):

Manulife Asset Management Limited

Project #2791851

Issuer Name:

Meritas Strategic Income Fund
Meritas Canadian Bond Fund
Meritas Monthly Dividend and Income Fund
Meritas Jantzi Social Index® Fund
Meritas U.S. Equity Fund
Meritas International Equity Fund
Meritas Income Portfolio
Meritas Income & Growth Portfolio
Meritas Balanced Portfolio
Meritas Growth & Income Portfolio
Meritas Growth Portfolio
Meritas Maximum Growth Portfolio
OceanRock Canadian Equity Fund
OceanRock U.S. Equity Fund
OceanRock International Equity Fund
OceanRock Income Portfolio
OceanRock Income & Growth Portfolio
OceanRock Balanced Portfolio
OceanRock Growth & Income Portfolio
OceanRock Growth Portfolio
OceanRock Maximum Growth Portfolio
Principal Regulator – British Columbia

Type and Date:

Amendment #1 to Final Simplified Prospectus dated July 6, 2018

Received on July 9, 2018

Offering Price and Description:

–

Underwriter(s) or Distributor(s):

N/A

Promoter(s):

N/A

Project #2740993

Issuer Name:

Ninepoint Core Bond Fund
Principal Regulator – Ontario

Type and Date:

Preliminary Simplified Prospectus dated June 29, 2018

NP 11-202 Preliminary Receipt dated July 5, 2018

Offering Price and Description:

Series A, Series F, Series PF, Series QF and Series I Units

Underwriter(s) or Distributor(s):

N/A

Promoter(s):

Ninepoint Partners L.P.

Project #2793186

Issuer Name:

ONE Global Equity ETF (formerly, Questrade Global Total Equity ETF)

ONE North American Core Plus Bond ETF

Principal Regulator – Ontario

Type and Date:

Combined Preliminary and Pro Forma Long Form

Prospectus dated July 6, 2018

NP 11-202 Preliminary Receipt dated July 9, 2018

Offering Price and Description:

–

Underwriter(s) or Distributor(s):

N/A

Promoter(s):

N/A

Project #2793825

Issuer Name:

RBC 1-5 Year Laddered Canadian Bond ETF

RBC 1-5 Year Laddered Corporate Bond ETF

RBC Canadian Bank Yield Index ETF

RBC Canadian Bond Index ETF

RBC Canadian Equity Index ETF

RBC Canadian Short Term Bond Index ETF

RBC Emerging Markets Equity Index ETF

RBC Global Government Bond (CAD Hedged) Index ETF

RBC International Equity (CAD Hedged) Index ETF

RBC International Equity Index ETF

RBC Target 2018 Corporate Bond Index ETF

RBC Target 2019 Corporate Bond Index ETF

RBC Target 2020 Corporate Bond Index ETF

RBC Target 2021 Corporate Bond Index ETF

RBC Target 2022 Corporate Bond Index ETF

RBC Target 2023 Corporate Bond Index ETF

RBC Target 2024 Corporate Bond Index ETF

RBC Target 2025 Corporate Bond Index ETF

RBC U.S. Banks Yield (CAD Hedged) Index ETF

RBC U.S. Banks Yield Index ETF

RBC U.S. Equity (CAD Hedged) Index ETF

RBC U.S. Equity Index ETF

RBC Vision Women's Leadership MSCI Canada Index ETF

Principal Regulator – Ontario

Type and Date:

Combined Preliminary and Pro Forma Long Form

Prospectus dated July 5, 2018

NP 11-202 Preliminary Receipt dated July 6, 2018

Offering Price and Description:

CAD Units

Underwriter(s) or Distributor(s):

RBC Global Asset Management Inc.

Promoter(s):

RBC Global Asset Management Inc.

Project #2793652

Issuer Name:

Ridgewood Canadian Bond Fund
Ridgewood Tactical Yield Fund
Principal Regulator – Ontario

Type and Date:

Amended and Restated to Final Simplified Prospectus dated July 1, 2018

Received on July 3, 2018

Offering Price and Description:

–

Underwriter(s) or Distributor(s):

Ridgewood Capital Asset Management Inc.

Promoter(s):

N/A

Project #2725831

Issuer Name:

All-Equity Fund (formerly, Global Growth 100 Fund)
Balanced 60/40 Fund
Balanced Fund (formerly Balanced 50/50 Fund)
Balanced Monthly Income Fund
Canadian Equity Fund
Canadian Fixed Income Fund
Canadian Small Company Equity Fund
Conservative Fund
Conservative Monthly Income Fund
EAFE Equity Fund
Emerging Markets Equity Fund
Global Managed Volatility Fund
Growth 100 Fund
Growth 80/20 Fund
Growth Fund (formerly, Growth 70/30 Fund)
Income 100 Fund
Income 20/80 Fund
Income 40/60 Fund
Long Duration Bond Fund
Long Duration Credit Bond Fund
Moderate Fund (formerly, Income 30/70 Fund)
Money Market Fund
Real Return Bond Fund
Short Term Bond Fund
Short Term Investment Fund
U.S. High Yield Bond Fund
U.S. Large Cap Index Fund (formerly, U.S. Large Cap Synthetic Fund)
U.S. Large Company Equity Fund
U.S. Small Company Equity Fund
Principal Regulator – Ontario

Type and Date:

Final Simplified Prospectus dated June 29, 2018

NP 11-202 Receipt dated July 9, 2018

Offering Price and Description:

Class E, E(H), F, F(H), I, I(H), O, O(H), R, R(H), S, Z and Z(H) Units

Underwriter(s) or Distributor(s):

N/A

Promoter(s):

SEI Investments Canada Company

Project #2775213

Issuer Name:

BlueBay \$U.S. Global Convertible Bond Fund (Canada)
BlueBay Emerging Markets Bond Fund (Canada)
BlueBay Emerging Markets Corporate Bond Fund
BlueBay Emerging Markets Local Currency Bond Fund (Canada)
BlueBay European High Yield Bond Fund (Canada)
BlueBay Global Convertible Bond Fund (Canada)
BlueBay Global Investment Grade Corporate Bond Fund (Canada)
BlueBay Global Monthly Income Bond Fund
BlueBay Global Sovereign Bond Fund (Canada)
RBC \$U.S. High Yield Bond Fund
RBC \$U.S. Investment Grade Corporate Bond Fund
RBC \$U.S. Money Market Fund
RBC \$U.S. Short-Term Corporate Bond Fund
RBC \$U.S. Strategic Income Bond Fund
RBC Asia Pacific ex-Japan Equity Fund
RBC Asian Equity Fund
RBC Balanced Fund
RBC Balanced Growth & Income Fund
RBC Bond Fund
RBC Canadian Bond Index Fund (formerly, RBC Advisor Canadian Bond Fund)
RBC Canadian Dividend Fund
RBC Canadian Equity Fund
RBC Canadian Equity Income Fund
RBC Canadian Government Bond Index Fund
RBC Canadian Index Fund
RBC Canadian Money Market Fund
RBC Canadian Short-Term Income Fund
RBC Canadian Small & Mid-Cap Resources Fund
RBC Canadian T-Bill Fund
RBC Conservative Bond Pool
RBC Conservative Growth & Income Fund
RBC Core Bond Pool
RBC Core Plus Bond Pool
RBC Emerging Markets Bond Fund
RBC Emerging Markets Bond Fund (CAD Hedged)
RBC Emerging Markets Dividend Fund
RBC Emerging Markets Equity Fund
RBC Emerging Markets Foreign Exchange Fund
RBC Emerging Markets Multi-Strategy Equity Fund
RBC Emerging Markets Small-Cap Equity Fund
RBC European Dividend Fund
RBC European Equity Fund
RBC European Mid-Cap Equity Fund
RBC Global Balanced Fund
RBC Global Bond & Currency Fund
RBC Global Bond Fund
RBC Global Corporate Bond Fund
RBC Global Dividend Growth Currency Neutral Fund
RBC Global Dividend Growth Fund
RBC Global Energy Fund
RBC Global Equity Focus Currency Neutral Fund
RBC Global Equity Focus Fund
RBC Global Equity Fund
RBC Global Growth & Income Fund
RBC Global High Yield Bond Fund
RBC Global Precious Metals Fund
RBC Global Resources Fund
RBC Global Technology Fund
RBC High Yield Bond Fund

RBC International Dividend Growth Fund
RBC International Equity Currency Neutral Fund
RBC International Equity Fund
RBC International Index Currency Neutral Fund
RBC Japanese Equity Fund
RBC Life Science and Technology Fund
RBC Managed Payout Solution
RBC Managed Payout Solution – Enhanced
RBC Managed Payout Solution – Enhanced Plus
RBC Monthly Income Bond Fund
RBC Monthly Income Fund
RBC North American Growth Fund
RBC North American Value Fund
RBC O'Shaughnessy All-Canadian Equity Fund
RBC O'Shaughnessy Canadian Equity Fund
RBC O'Shaughnessy Global Equity Fund
RBC O'Shaughnessy International Equity Fund
RBC O'Shaughnessy U.S. Growth Fund
RBC O'Shaughnessy U.S. Growth Fund II
RBC O'Shaughnessy U.S. Value Fund
RBC O'Shaughnessy U.S. Value Fund (Unhedged)
RBC Premium \$U.S. Money Market Fund
RBC Premium Money Market Fund
RBC Private Canadian Corporate Bond Pool
RBC Private Canadian Dividend Pool
RBC Private Canadian Equity Pool
RBC Private Canadian Growth and Income Equity Pool
RBC Private Canadian Growth Equity Pool
RBC Private Canadian Mid-Cap Equity Pool
RBC Private EAFE Equity Pool
RBC Private Income Pool
RBC Private Overseas Equity Pool
RBC Private Short-Term Income Pool
RBC Private U.S. Growth Equity Pool
RBC Private U.S. Large-Cap Core Equity Currency Neutral Pool
RBC Private U.S. Large-Cap Core Equity Pool
RBC Private U.S. Large-Cap Value Equity Currency Neutral Pool
RBC Private U.S. Large-Cap Value Equity Pool
RBC Private U.S. Small-Cap Equity Pool
RBC Private World Equity Pool
RBC QUBE All Country World Equity Fund
RBC QUBE Canadian Equity Fund
RBC QUBE Global Equity Fund
RBC QUBE Low Volatility All Country World Equity Fund
RBC QUBE Low Volatility Canadian Equity Fund
RBC QUBE Low Volatility Global Equity Currency Neutral Fund
RBC QUBE Low Volatility Global Equity Fund
RBC QUBE Low Volatility U.S. Equity Currency Neutral Fund
RBC QUBE Low Volatility U.S. Equity Fund
RBC QUBE U.S. Equity Fund
RBC Retirement 2020 Portfolio
RBC Retirement 2025 Portfolio
RBC Retirement 2030 Portfolio
RBC Retirement 2035 Portfolio
RBC Retirement 2040 Portfolio
RBC Retirement 2045 Portfolio
RBC Retirement 2050 Portfolio
RBC Retirement Income Solution
RBC Select Aggressive Growth Portfolio

RBC Select Balanced Portfolio
RBC Select Choices Aggressive Growth Portfolio
RBC Select Choices Balanced Portfolio
RBC Select Choices Conservative Portfolio
RBC Select Choices Growth Portfolio
RBC Select Conservative Portfolio
RBC Select Growth Portfolio
RBC Select Very Conservative Portfolio
RBC Strategic Income Bond Fund (formerly, RBC Monthly Income High Yield Bond Fund)
RBC Target 2020 Education Fund
RBC Target 2025 Education Fund
RBC Target 2030 Education Fund
RBC Target 2035 Education Fund
RBC Trend Canadian Equity Fund
RBC U.S. Dividend Currency Neutral Fund
RBC U.S. Dividend Fund
RBC U.S. Equity Currency Neutral Fund
RBC U.S. Equity Fund
RBC U.S. Equity Value Fund
RBC U.S. Index Currency Neutral Fund
RBC U.S. Index Fund
RBC U.S. Mid-Cap Growth Equity Currency Neutral Fund
RBC U.S. Mid-Cap Growth Equity Fund
RBC U.S. Mid-Cap Value Equity Fund
RBC U.S. Monthly Income Fund (formerly, RBC \$U.S. Income Fund)
RBC U.S. Small-Cap Core Equity Fund
RBC U.S. Small-Cap Value Equity Fund
RBC Vision Balanced Fund (formerly, RBC Jantzi Balanced Fund)
RBC Vision Bond Fund (formerly, PH&N Community Values Bond Fund)
RBC Vision Canadian Equity Fund (formerly, RBC Jantzi Canadian Equity Fund)
RBC Vision Fossil Fuel Free Global Equity Fund
RBC Vision Global Equity Fund (formerly, RBC Jantzi Global Equity Fund)
Principal Regulator – Ontario

Type and Date:

Final Simplified Prospectus dated July 28, 2018
NP 11-202 Receipt dated July 3, 2018

Offering Price and Description:

Series A, Advisor Series, Advisor T5 Series, Series T5, Series T8, Series H, Series D, Series DZ, Series F, Series FT5, Series FT8, Series I and Series O units

Underwriter(s) or Distributor(s):

RBC Global Asset Management Inc. (other than Series A)
Royal Mutual Funds Inc. (Series A)
Royal Mutual Funds Inc./RBC Direct Investing Inc.
The Royal Trust Company
RBC Dominion Securities Inc.
Phillips, Hager & North Investment Funds Ltd.

Promoter(s):

RBC Global Asset Management Inc. (other than Series A)
Project #2774740

Issuer Name:

CC&L Core Income and Growth Fund
CC&L Equity Income and Growth Fund
Principal Regulator – Ontario

Type and Date:

Amendment #1 to Final Simplified Prospectus dated June 28, 2018

NP 11-202 Receipt dated July 5, 2018

Offering Price and Description:

Series FI units

Underwriter(s) or Distributor(s):

N/A

Promoter(s):

Connor, Clark & Lunn Funds Inc.

Project #2747898

Issuer Name:

Mackenzie Income Fund
Mackenzie Canadian Short Term Income Fund
Principal Regulator – Ontario

Type and Date:

Amendment #2 to Final Simplified Prospectus dated June 26, 2018

NP 11-202 Receipt dated July 4, 2018

Offering Price and Description:

–

Underwriter(s) or Distributor(s):

LBC Financial Services Inc.

Promoter(s):

Mackenzie Financial Corporation

Project #2680408

Issuer Name:

Galileo Growth and Income Fund
Galileo High Income Plus Fund
Principal Regulator – Ontario

Type and Date:

Final Simplified Prospectus dated June 29, 2018

NP 11-202 Receipt dated July 4, 2018

Offering Price and Description:

Series A and F units @ net asset value

Underwriter(s) or Distributor(s):

N/A

Promoter(s):

Galileo Global Equity Advisors Inc.

Project #2777916

Issuer Name:

Mackenzie Income Fund
Mackenzie Canadian Short Term Income Fund
Principal Regulator – Ontario

Type and Date:

Amendment #3 to Final Simplified Prospectus dated June 26, 2018

NP 11-202 Receipt dated July 4, 2018

Offering Price and Description:

–

Underwriter(s) or Distributor(s):

Quadrus Investment Services Ltd.

LBC Financial Services Inc.

Promoter(s):

Mackenzie Financial Corporation

Project #2656987

Issuer Name:

Multi-Asset Fixed Income
Multi-Asset Fixed Income Class
Multi-Asset Growth & Income Strategy
Multi-Asset Growth & Income Strategy Class
Multi-Asset Growth Strategy
Multi-Asset Growth Strategy Class
Multi-Asset Income Strategy
Multi-Asset Income Strategy Class
Multi-Asset International Equity
Russell Investments Balanced
Russell Investments Balanced Class
Russell Investments Balanced Growth
Russell Investments Balanced Growth Class
Russell Investments Canadian Cash Fund
Russell Investments Canadian Dividend Class
Russell Investments Canadian Dividend Pool
Russell Investments Canadian Equity Class
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Russell Investments ESG Global Equity Pool (formerly
Russell Investments ESG Global Equity Fund)
Russell Investments Fixed Income Class
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Russell Investments Focused Canadian Equity Class
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Russell Investments Global Infrastructure Pool
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Russell Investments Global Smaller Companies Pool
Russell Investments Global Unconstrained Bond Class
Russell Investments Global Unconstrained Bond Pool
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Russell Investments Income Essentials Class
Russell Investments Inflation Linked Bond Fund
Russell Investments Long-Term Growth
Russell Investments Long-Term Growth Class
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Russell Investments Multi-Factor International Equity Pool
Russell Investments Multi-Factor US Equity Pool
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Russell Investments Overseas Equity Fund

Russell Investments Overseas Equity Pool
Russell Investments Real Assets
Russell Investments Short Term Income Class
Russell Investments Short Term Income Pool
Russell Investments US Equity Class
Russell Investments US Equity Fund
Russell Investments US Equity Pool
Principal Regulator – Ontario

Type and Date:

Final Simplified Prospectus dated June 29, 2018
NP 11-202 Receipt dated July 5, 2018

Offering Price and Description:

Series B, B-5, B-6, B-7, E, E-5, E-6, E-7, F, F-5, F-6, F-7,
O, O-7, US Dollar Hedged Series B, US Dollar Hedged
Series B-5, US Dollar Hedged Series F, US Dollar Hedged
Series F-5, CDN Dollar Hedged Series B, CDN Dollar
Hedged Series E, CDN Dollar Hedged Series F, CDN
Dollar Hedged Series O @ net asset value

Underwriter(s) or Distributor(s):

Russell Investments Corporate Class Inc.
Russell Investments Canada Limited

Promoter(s):

Russell Investments Corporate Class Inc.

Project #2776467

NON-INVESTMENT FUNDS

Issuer Name:

Auston Capital Corp.
Principal Regulator – British Columbia

Type and Date:

Preliminary CPC Prospectus (TSX-V) dated July 9, 2018
Received on July 9, 2018

Offering Price and Description:

3,000,000 Common Shares – \$300,000.00
PRICE: \$0.10 per Common Share

Underwriter(s) or Distributor(s):

Foster & Associates Financial Services Inc.

Promoter(s):

Zachery Dingsdale
Project #2794190

Issuer Name:

Gabriella's Kitchen Inc.
Principal Regulator – Alberta (ASC)

Type and Date:

Preliminary Long Form Prospectus dated July 3, 2018
NP 11-202 Preliminary Receipt dated July 5, 2018

Offering Price and Description:

Up to 22,226,111 Common Shares to be distributed without additional payment upon the automatic conversion of Convertible Debentures
Price Per Unit: \$1,000.00

Underwriter(s) or Distributor(s):

Eight Capital
Gravitas Securities Inc.

Promoter(s):

–

Project #2793200

Issuer Name:

Inner Spirit Holdings Ltd.
Principal Regulator – Alberta (ASC)

Type and Date:

Amendment dated July 6, 2018 to Preliminary Long Form Prospectus dated April 12, 2018
Received on July 9, 2018

Offering Price and Description:

A minimum of \$3,000,000.00 and a maximum of \$3,750,000.00
A minimum 20,000,000 and a maximum of 25,000,000 Units

Price: \$0.15 per Unit

Underwriter(s) or Distributor(s):

Leede Jones Gable Inc.

Promoter(s):

Darren Bondar
Christopher Gulka
Craig Steinberg
Project #2756259

Issuer Name:

Marathon Gold Corporation
Principal Regulator – Ontario

Type and Date:

Preliminary Short Form Prospectus dated July 5, 2018
NP 11-202 Preliminary Receipt dated July 5, 2018

Offering Price and Description:

\$8,060,000.00
5,900,000 Common Shares
2,900,000 Flow-Through Common Shares
\$0.85 per Offered Share
\$1.05 per FT Share

Underwriter(s) or Distributor(s):

Haywood Securities Inc.
RBC Dominion Securities Inc.
Canaccord Genuity Corp.
Laurentian Bank Securities Inc.
Raymond James Ltd.

Promoter(s):

–

Project #2789992

Issuer Name:

Radiant Technologies Inc.
Principal Regulator – Alberta (ASC)

Type and Date:

Preliminary Short Form Prospectus dated July 5, 2018
NP 11-202 Preliminary Receipt dated July 5, 2018

Offering Price and Description:

\$21,600,000.00
18,000,000 Units
Price: \$1.20 per Unit

Underwriter(s) or Distributor(s):

Canaccord Genuity Corp.
GMP Securities L.P.
Laurentian Bank Securities Inc.

Promoter(s):

–

Project #2791556

Issuer Name:

Tilray, Inc.
Principal Regulator – British Columbia

Type and Date:

Amendment dated July 9, 2018 to Preliminary Long Form Prospectus dated June 20, 2018
NP 11-202 Preliminary Receipt dated July 9, 2018

Offering Price and Description:

C\$[*]
9,000,000 Shares of Class 2 Common Stock
Price: C\$[*] per Offered Subordinate Voting Share

Underwriter(s) or Distributor(s):

BMO Nesbitt Burns Inc.
Eight Capital

Promoter(s):

Brendan Kennedy
Project #2787095

Issuer Name:

Boralex Inc.
Principal Regulator – Quebec

Type and Date:

Final Short Form Prospectus dated July 4, 2018
NP 11-202 Receipt dated July 4, 2018

Offering Price and Description:

\$180,002,200.00
8,911,000 Subscription Receipts each representing the right to receive one class A share
Price: \$20.20 per Subscription Receipt

Underwriter(s) or Distributor(s):

National Bank Financial Inc.
RBC Dominion Securities Inc.
BMO Nesbitt Burns Inc.
CIBC World Markets Inc.
Desjardins Securities Inc.
TD Securities Inc.
Cormark Securities Inc.
Industrial Alliance Securities Inc.

Promoter(s):

–

Project #2787510

Issuer Name:

Correvio Pharma Corp.
Principal Regulator – British Columbia

Type and Date:

Final Shelf Prospectus dated July 5, 2018
NP 11-202 Receipt dated July 5, 2018

Offering Price and Description:

US\$250,000,000.00

Common Shares
Preferred Shares
Debt Securities
Warrants
Units

Subscription Receipts

–

Underwriter(s) or Distributor(s):

–

Promoter(s):

–

Project #2788320

Issuer Name:

Magna Gold Corp.
Principal Regulator – Ontario

Type and Date:

Final CPC Prospectus (TSX-V) dated June 29, 2018
NP 11-202 Receipt dated July 4, 2018

Offering Price and Description:

Offering: \$200,000.00 – 2,000,000 Common Shares
Price: \$0.10 per Offered Share

Underwriter(s) or Distributor(s):

M Partners Inc

Promoter(s):

–**Project #2774258**

Issuer Name:

National Bank of Canada
Principal Regulator – Quebec

Type and Date:

Final Shelf Prospectus dated July 3, 2018
NP 11-202 Receipt dated July 3, 2018

Offering Price and Description:

\$4,500,000,000.00 – Medium Term Notes – Debt Securities
(Unsubordinated Indebtedness)

Underwriter(s) or Distributor(s):

National Bank Financial Inc.
CIBC World Markets Inc.
Desjardins Securities Inc.
Laurentian Bank Securities Inc.
RBC Dominion Securities Inc.
Raymond James Ltd.
Richardson GMP Limited
Wellington-Altus Private Wealth Inc.

Promoter(s):

–

Project #2784774

Issuer Name:

RIOCAN REAL ESTATE INVESTMENT TRUST
Principal Regulator – Ontario

Type and Date:

Final Shelf Prospectus dated July 3, 2018
NP 11-202 Receipt dated July 4, 2018

Offering Price and Description:

\$3,000,000,000.00 – Debt Securities Units, (Senior Unsecured) Preferred Units

Underwriter(s) or Distributor(s):

–

Promoter(s):

–

Project #2788609

Issuer Name:

Thomson Reuters Corporation
Principal Regulator – Ontario

Type and Date:

Final Shelf Prospectus dated July 3, 2018
NP 11-202 Receipt dated July 4, 2018

Offering Price and Description:

US\$3,000,000,000.00 – Debt Securities (unsecured)

Underwriter(s) or Distributor(s):

–

Promoter(s):

–

Project #2787102

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Chapter 12

Registrations

12.1.1 Registrants

Type	Company	Category of Registration	Effective Date
THERE IS NOTHING TO REPORT THIS WEEK.			

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