

**IN THE MATTER OF THE SECURITIES ACT
R.S.O. 1990, c. S.5, as amended**

- AND -

**IN THE MATTER OF
AFFINITY FINANCIAL GROUP INC., INTERNATIONAL STRUCTURED
PRODUCTS INC., AFFINITY RESTRICTED SECURITIES INC., DIONYSUS
INVESTMENTS LTD., BRIAN KEITH MCWILLIAMS, DAVID JOHN LEWIS
and LOUIS SAPI**

**STATEMENT OF ALLEGATIONS
OF STAFF OF THE ONTARIO SECURITIES COMMISSION**

Background

The Affinity Respondents

1. Affinity Financial Group Inc. (“Affinity”) is an Ontario corporation with a registered address at 195 The West Mall in Etobicoke, Ontario.
2. International Structures Products (“ISP), formerly Affinity Capital Markets Inc., is an Ontario corporation with a registered address at 195 The West Mall in Etobicoke, Ontario. Under the name Affinity Capital Markets Inc., ISP was registered with the Commission as a Dealer in the category of Limited Market Dealer from August 28, 2000 to August 28, 2002.
3. Affinity Restricted Securities Inc. (“ARS”) is an Ontario corporation with a registered address at 195 The West Mall in Etobicoke, Ontario. ARS has never been registered with the Commission.
4. Dionysus Investments Ltd. (“Dionysus”) is a company incorporated in the Bahamas. Dionysus has never been registered with the Commission.

5. ISP and ARS are direct and indirect wholly-owned subsidiaries of Affinity. Affinity is jointly owned by Brian McWilliams (“McWilliams”), David Lewis (“Lewis”) and Louis Sapi (“Sapi”).
6. Affinity had a number of other subsidiaries and related companies, including Dionysus. These companies provided financial planning and reporting services to their clients and sold mutual funds and insurance products.

The Individual Respondents

7. McWilliams is an individual who was registered with the Commission as a Salesperson in the category of Limited Market Dealer between August 28, 2000 and December 31, 2002. At all material times, he was the Treasurer, Secretary and a Director of Affinity. He was also the President and a Director of ISP, and the President and a Director of ARS.
8. Lewis is an individual who was registered with the Commission as a Salesperson in the category of Mutual Fund Dealer from April 13, 1993 to May 6, 2002 and in the category of Limited Market Dealer from April 13, 1993 to December 31, 2002. At all material times, he was the President and a Director of Affinity. He was also the Secretary, Treasurer and a Director of ISP, and the Vice-President, Secretary, Treasurer and a Director of ARS.
9. Sapi is an individual who has never been registered with the Commission. He was a Director of ARS from March 30, 2001 to July 6, 2001. He was a Director of Affinity at all material times.

The Rule 144 Loan Program

10. In the period between October 1998 and June 2002 (the “Material Period”) ISP and then ARS and Dionysus (collectively, “ARS”) solicited their clients to invest in a program where their funds would be used to make loans to insiders of

reporting issuers located in the United States. The insiders would pledge restricted securities of the issuer as collateral for the loans. Clients would receive either the interest payments on the loans or the proceeds of the sale of the restricted securities in return for their investment. This was referred to as the Rule 144 Loan Program.

11. The Rule 144 Loan Program was established, managed and operated by a company named American Financial Group (“AFG”) that operated out of Miami, Florida and its principal David Siegel (“Siegel”) (collectively, the “Americans”).
12. ARS’ marketing materials relating to the Rule 144 Loan Program stated that “[ARS], at its discretion, may determine to which deals and to what amount, an investor’s funds will be allocated”. They further stated that “[i]nvestors will have no right to participate in the management of any of the investment programs, and each investor must be willing to entrust all aspects of the management of his investments to [ARS]”.
13. ARS executed an Investment Advisory Agreement with its clients who invested in the Rule 144 Loan Program. This agreement authorized ARS to “continuously review, supervise and administer the investment programs of the [i]nvestor, to determine in the discretion of [ARS] the assets to be held uninvested”. It further stated that “the investment and reinvestment of the assets of the [i]nvestor, including the purchase or sale of any securities or the borrowing of any funds on behalf of the [i]nvestor...shall be exclusively within the control and discretion of [ARS]”.
14. As noted above, the Rule 144 Loan Program was managed by the Americans. The Americans provided ARS with monthly statements for each investor. ARS prepared monthly account statements on its letterhead for its clients based solely on information provided to it by the Americans.

15. ARS employed sales representatives, all of whom were licensed as mutual fund salespeople and/or limited market dealers, to promote the Rule 144 Loan Program to its clients.
16. During the Material Period, at least 161 of ARS' clients invested at least \$30,937,941 in the Rule 144 Loan Program. ARS thereby acted as an adviser without registration, contrary to section 25(1)(c) of the Act.

Disclosure and Due Diligence

17. ARS orally disclosed to most of its clients that the Americans, and in particular Siegel, would select and administer the Rule 144 loans and would make all Rule 144 Loan Program investment decisions.
18. Before beginning to solicit its clients for the Rule 144 Loan Program, ARS reviewed AFG's history with the Rule 144 Loan Program and its history with other investments. ARS did not research Siegel's regulatory status or history. Siegel had previously been enjoined as a result of an enforcement action brought by the United States Securities and Exchange Commission (the "SEC") in response to his participation in a stock manipulation scheme.

ARS' Commissions and Fees from the Rule 144 Loan Program

19. ARS' clients were charged an initial commission of between 0% and 3% of the money invested in the Rule 144 Loan Program. This commission was disclosed to ARS' clients in its marketing materials.
20. The Rule 144 Loan Program generated earnings in two ways. If a loan was repaid partially or in full, all of the interest paid by the borrower was transferred directly to ARS' client. If a loan went into default, 80% of the gain generated on the disposition of the share collateral was paid to ARS' client, 10% was retained by

the Americans and 10% was paid to ARS. This fee was titled a “performance fee” and was disclosed to ARS’ clients in the Investment Advisory Agreement.

21. ARS also received a “loan origination fee” from the Americans for every investment in the Rule 144 Loan Program made by its clients.

Outcome of the Rule 144 Loan Program

22. On June 19, 2002, ARS was advised by AFG that Siegel had gone missing and had taken all records relating to the Rule 144 Loan Program with him. Three days later, McWilliams and Lewis flew to Florida to investigate the situation. The FBI was contacted as were securities regulators, including the Ontario Securities Commission.
23. When Siegel was finally located several weeks later, he stated that he had lost investor funds through poor hedging strategies and general mismanagement of the Rule 144 loans. Siegel also stated he had provided false statements to ARS while he tried to “trade his way out of trouble”.
24. On July 24, 2002, the SEC initiated enforcement proceedings against the Americans, and later secured the appointment of a Receiver to attempt to recover the proceeds of the Rule 144 Loan Program.
25. On January 27, 2005, the Receiver stated in a report to investors that Siegel may have lost the majority of their funds through bad loans and bad stock purchases. The Receiver also stated that despite Siegel’s representations that he was selling shares short to offset the shares taken as collateral for the loans, there were very few short sales actually made. The Receiver also stated that although Siegel represented to investors and their reporting agents [such as ARS] that he was selling the shares held as collateral at a profit, this was not the case.
26. On March 28, 2005, the SEC obtained a final judgment against Siegel affirming his violations of US securities laws in the course of the Rule 144 Loan Program,

barring him from acting as a director or officer of any issuer, and requiring him to pay disgorgement as well as interest and civil penalties.

27. The court-appointed Receiver is making efforts to locate and redistribute the investor funds entrusted to Siegel and AFG through the Rule 144 Loan Program. No funds have been redistributed, and the receiver has informed investors that they should expect to receive “very little, if anything” from his efforts.

Responsibility of McWilliams, Lewis and Sapi

28. McWilliams, Lewis and Sapi authorized, permitted or acquiesced in ARS’ breaches of Ontario securities law as outlined above.

Conduct Contrary to the Public Interest

29. By engaging in the conduct described above, Affinity, ISP, ARS, Dionysus, McWilliams, Lewis and Sapi acted in a manner contrary to the public interest.
30. Staff reserves the right to make such other allegations as it may advise and the Commission may permit.

DATED at Toronto this 19th day of September, 2005.