

IN THE MATTER OF: THE SECURITIES ACT

-and-

IN THE MATTER OF: GREGORY DAVID KLASSEN

STATEMENT OF ALLEGATIONS OF STAFF OF THE
MANITOBA SECURITIES COMMISSION

STAFF OF THE MANITOBA SECURITIES COMMISSION ALLEGE, AMONG OTHER THINGS, THAT:

A. REGISTRATION

1. Gregory David Klassen ("Klassen") has been more or less continuously registered under the Securities Act, R.S.M. 1988, c. S50 (the "Act") since July 14 1993. He was first registered as a salesman on July 14, 1993 with Royal Bank Mutual Fund Services Inc. until January 12, 1994. Commencing January 25, 1994 to the present Klassen has been registered as a salesman with Wellington West Capital Inc.

2. Wellington West Capital Inc. ("Wellington West") has been continuously registered as a broker and investment dealer under the Act since October 21, 1993.

B. ACTIVITY

MTS OFFERING

1. In late 1996 The Province of Manitoba, pursuant to The Reorganization Act provided for the reorganization of the capital structure of The Manitoba Telephone System from a crown corporation to a share capital corporation known as Manitoba Telecom Services Inc. ("MTS").

2. Pursuant to The Reorganization Act the authorized share capital of MTS consists of an unlimited number of common shares, an unlimited number of preference shares and one special share. In order to effect the reorganization, 70,000,000 common shares and the one special share were issued to the Province of Manitoba. Common shares would then be acquired by a group of underwriters for the purpose of distributing the shares to the public by way of an initial public offering by secondary distribution pursuant to a prospectus.

3. On December 20, 1996 MTS filed with The Manitoba Securities Commission (the "Commission") and obtained a receipt from the Director for a prospectus (the "Final Prospectus") qualifying the distribution of 70,000,000 common shares of MTS (the "MTS Shares"). The offering of the MTS Shares to the public was done by a group of underwriters which included Wellington West (the "MTS Offering").

4. The MTS Offering consisted of three parts: the offering of MTS shares in all the provinces of Canada (the "National Offering"), the offering of Common Shares to Manitoba residents only

pursuant to an installment plan for which installment receipts (the "Installment Receipts") were issued (the "Installment Offering"), and an offering to MTS employees pursuant to an employee share plan (the "Employee Offering"). Of the 70,000,000 shares being offered, 50,540,706 were reserved to be issued pursuant to the Installment Offering.

5. Commission Order No. 1509, dated October 29, 1996, was issued permitting certain activities taking place in connection with the Installment Offering and the Employee Offering prior to a receipt being issued for the Final Prospectus.

6. To subscribe for Installment Receipts under the Installment Offering Commission Order No. 1509 required potential purchasers to complete a form which was referred to as a Priority Application Form Under the Installment Plan (the "PAF"). All PAFs had to be received by a Dealer, Registered Representative or Financial Institution (as those terms are defined in Commission Order No. 1509) no later than December 14, 1996.

7. The PAF was required to be completed in addition to whatever other documentation a registered dealer would require for trading on an account with that registered dealer. If the purchaser was not an existing client of the registered dealer, the registered dealer would complete the necessary documentation to establish an account with the registered dealer for the purchaser.

8. The underwriting group, pursuant to the terms of the Final Prospectus, placed limits on the number of Installment Receipts that a person could subscribe for (the "Personal Allotment"). The initial restriction was a maximum of 4,000 Installment Receipts available to each Manitoba resident which was subsequently changed to a maximum of 1,600 Installment Receipts in the Final Prospectus.

9. An Installment Receipt entitled a holder to pay for an MTS Share in two payments, the first payment of \$7.00 per MTS Share on or before January 7, 1997 and the second payment of \$6.00 per MTS Share on or before January 8, 1998.

10. CIBC Wood Gundy Securities Inc., the lead underwriter with respect to the MTS Offering, circulated a memo dated December 12, 1996 to all members of the underwriting group as well as financial institutions forming part of the selling group to deal with certain inappropriate sales practices which had been identified as occurring. One of the points raised in the memo was that the Commission had received reports that syndicate and selling group employees were counseling Manitobans to borrow the name and Social Insurance Numbers of other Manitobans for the purposes of exceeding their Personal Allotments. The memo stated that any such allocations were considered fraudulent.

EDGEWATER INVESTMENT CLUB

11. SDS was at all material times a resident of Manitoba and a client of Klassen.

12. SDS approached Klassen to obtain further information concerning the MTS Offering after it was announced. In particular SDS was aware that there were limits on the number of Installment

Receipts that could be purchased pursuant to the Installment Offering. He asked Klassen whether there was any means whereby he could purchase installment receipts over and above the Personal Allotment.

13. Klassen advised SDS that he should establish an investment club and approach close friends and associates who did not want to purchase MTS shares but would permit SDS to utilize their names and Social Insurance Numbers for the purpose of permitting SDS to subscribe for more Installment Receipts than the Personal Allotment.

14. Klassen provided SDS with the necessary documents for the purposes of establishing an investment club account with Wellington West (the "Edgewater Investment Club"). A trading account was established at Wellington West for the Edgewater Investment Club, Account No. 4A-3454-A (the "Edgewater Account"). The account information listed SDS as the person appointed to give all trading instructions with respect to the Edgewater Account. SDS completed all of the required documentation provided by Klassen and returned it to Klassen. SDS also arranged for all the financing which was used for the purposes of purchasing Installment Receipts.

15. On or about December 15, 1996, SDS telephoned Klassen and left the names and Social Insurance Numbers of the persons who were reportedly members of the Edgewater Investment Club on Klassen's voicemail.

16. Klassen completed PAFs for each of SDS and for the persons who had given SDS their name and social insurance number to permit SDS to purchase Installment Receipts over and above his Personal Allotment. Klassen signed each of the forms as agent, but at no time did he contact the individuals for the purposes of completing the PAF or to obtain authorization to complete the PAF on their behalf.

17. On January 7, 1997, the Edgewater Investment Club purchased 68,600 installment receipts for \$480,200.00. The funds for the purchase originated from SDS and his immediate family, but not from any other members of the Edgewater Investment Club.

18. Subsequent to January 7, 1997, SDS became aware of media reports that implied that a Winnipeg Doctor had been involved with certain irregularities to enable him to procure additional MTS shares beyond the Personal Allotment. SDS met with Commission Staff concerning these reports.

19. Subsequent to this media attention and following a meeting with Commission Staff, SDS attended at Wellington West to discuss with Klassen the alleged irregularities. SDS met with both Klassen and with Charles Spiring, the CEO of Wellington West, where he expressed he was displeased with the advice he had received with respect to establishing an investment club. Spiring advised SDS that Wellington West had spoken to legal counsel and had been advised that there was nothing wrong with what they had done in relation to creating the Edgewater Investment Club.

20. SDS gave instructions to Klassen to sell all the MTS shares contained in the Edgewater account and return the principal amount to the persons who provided the funds for the purchase, forward a certain amount to SDS's solicitors for anticipated legal costs relating to the Edgewater Investment Club, forward to each member of the Edgewater Investment Club a cheque in the amount of that member's prorated share of the remaining profits.

21. SDS has advised staff that if it had not been for the press coverage and the subsequent meeting with Commission staff, it was his intention, based upon the advice received from Klassen, that he would have kept all of the profits from the investment club for himself.

C. ALLEGATIONS

1. Staff of the Commission allege that:

(a) Klassen acted improperly and contrary to the public interest in recommending SDS obtain the name and social insurance numbers of Manitoba residents such that SDS would be able to acquire MTS Shares in excess of the Personal Allotment, contrary to specific instructions from the lead underwriter that such a practice was considered fraudulent;

(b) Klassen acted improperly and contrary to the public interest in recommending SDS obtain the name and social insurance numbers of Manitoba residents such that SDS would be able to acquire MTS Shares in excess of the Personal Allotment, contrary to the limits described in the Final Prospectus;

(c) Klassen acted improperly and contrary to the public interest in completing PAFs using the names and social insurance numbers of various Manitoba residents so that it appeared that those persons were purchasing the Installment Receipts which SDS would acquire in excess of the Personal Allotment;

(d) Klassen acted improperly and contrary to the public interest in providing SDS with documentation and assistance for the establishment of the Edgewater Investment Club and opening the Edgewater Account when he knew or ought to have known the purpose of establishing the investment club was to permit SDS to purchase MTS Shares in excess of his Personal Allotment.

2. Such further and other matters as counsel may advise and the Commission may permit.

DATED at Winnipeg, Manitoba this "31st" day of January, 2000.

"Douglas R. Brown"
Director, Legal and Enforcement

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