



IN THE MATTER OF: THE SECURITIES ACT

-and-

**IN THE MATTER OF: PORTFOLIO STRATEGIES CORPORATION and
JOHN DAVID GRIFFITHS and
RANDY KENNETH REYNOLDS**

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

STAFF OF THE MANITOBA SECURITIES COMMISSION ALLEGE THAT:

THE RESPONDENTS

1. John David Griffiths ("Griffiths") resides in the Province of Manitoba.
2. At all material times, Griffiths was registered as a salesperson under *The Securities Act* of Manitoba (the "Act") with Portfolio Strategies Corporation ("Portfolio Strategies") Griffiths is no longer registered in any capacity under the Act.
3. Randy Kenneth Reynolds ("Reynolds") resides in the Province of Manitoba.
4. At all material times, Reynolds was registered under the Act as the branch manager with Portfolio Strategies and was responsible for the supervision of Griffiths. Reynolds is currently registered under the Act as a branch manager with World Source Financial Management.
5. At all material times, Portfolio Strategies was registered as a broker-dealer restricted to the trading of mutual funds and labour-sponsored funds as set out in its conditions of registration under the Act.

DETAILS

6. In or about March 2001 Reynolds received an advertisement from Digital World Financial Inc. ("Digital World") regarding securities it was offering to the public.
7. Reynolds followed up with Digital World and obtained binders containing information about Digital World and the securities it was offering. The information obtained included a Digital World sales terms and regulations document which provided, in part, that Digital World products are available in the form of notes and that Digital World is the express guarantor of all Notes at

issue, debt notes of all types, Guaranteed Investment Certificates ("GIC"), promissory notes, debentures, conditional sales contracts, certificated securities and non-certificated securities.

8. Reynolds gave a Digital World binder to Griffiths with the suggestion that it was permissible to offer the Digital World GIC to clients. Reynolds told Griffiths to deal with Digital World directly.

9. Before any sales of Digital World securities took place, the principal of Digital World was contacted by Griffiths and Reynolds to determine whether the Digital World products were legitimate and fully guaranteed. Reynolds and Griffiths did not have any prior experience with Digital World or its principals.

10. In or about May 2001, Griffiths became the provincial sales agent for Digital World and was responsible for promoting Digital World and was to be paid commissions.

11. Reynolds and Griffiths did not advise Portfolio Strategies that they were intending to offer the Digital World securities to clients.

12. The Digital World securities were not securities permitted to be traded under the conditions of registration of Portfolio Strategies under the Act.

Reynolds' Trade

13. In or about May 2001, without the knowledge and consent of Portfolio Strategies, Reynolds contacted B.O. and recommended he purchase a Digital World GIC. B.O. purchased a Digital World GIC in the amount of \$50,000 for a one year term.

14. B.O. was able to redeem his Digital World GIC and receive his principal amount invested.

Griffiths' Trades

R.G. and M.G.

15. In or about June 2001, Griffiths contacted R.G. and M.G. to discuss purchasing a Digital World investment. R.G. and M.G. were originally going to purchase a Digital World GIC in the amount of \$50,000.

16. The \$50,000 Digital World GIC was to be for a one year term with an interest rate of 6.25% payable annually.

17. Griffiths provided no documentation about Digital World to R.G. and M.G. other than an Digital World Financial Inc. GIC order form.

18. On the advice of Griffiths, the \$50,000 invested by R.G. and M.G. was subsequently split into two Digital World investments, one being a note for \$25,000 for a one year term with an

interest rate of 6.25% paid annually and the second investment being a note for a three year term with an interest rate of 7.15% paid annually.

19. The Digital World notes purchased by R.G. and M.G. were put in the name of M.G.

20. In or about August 2002, the maturing one-year Digital World note was renewed for one more year on the advice of Griffiths.

21. In or about July 2003, the maturing Digital World note was renewed for a further two years on the advice of Griffiths.

22. In or about July, 2004 M.G. wanted to redeem her Digital World notes but was unable to do so due to Digital World having financial difficulties.

23. To date, M.G. has not received any interest payments or her principal amount invested from Digital World.

B.G.

24. In or about August 2001, Griffiths contacted B.G. and recommended he purchase a Digital World GIC. B.G. agreed to invest the sum of \$50,000 with Digital World.

25. Griffiths provided no documentation about Digital World to B.G. other than a Digital World Financial Inc. GIC order form.

26. B.G. purchased a \$25,000 Digital World note for a one-year term with an interest rate of 6.25% paid annually and a \$25,000 Digital World note for a three-year term with interest of 7.15% paid annually.

27. In or about August 2002, the maturing one-year Digital World note was renewed for two more years with an interest rate of 5.25% based on the advice of Griffiths.

28. To date, B.G. has not received any interest payments or his principal amount invested from Digital World.

P.D.

29. In or about August 2001, Griffiths contacted P.D. and recommended she purchase a Digital World GIC. P.D. who is since deceased, agreed to purchase a Digital World GIC in the amount of \$84,191.03.

30. P.D. purchased a note issued by Digital World. The note was for a two year term with an interest rates of 6.75% payable annually.

31. P.D's accountant M.H. contacted Griffiths in or about September 2003 indicating P.D. did not receive her 2002 or 2003 RIF payment due from Digital World.

32. To date, neither P.D. or the estate of P.D. has received any interest payments or principal amount invested from Digital World.
33. Reynolds was aware of the trades of the Digital World securities made by Griffiths.
34. Portfolio Strategies was not aware of the trades of the Digital World securities made by Griffiths or Reynolds.
35. Digital World securities are not guaranteed by the Government of Canada, a Government of any Province, or a Municipal corporation, a bank, trust company, loan company, credit union, or caisse populaire.
36. Each of the trades was made in the course of Griffiths and/or Reynolds employment with Portfolio Strategies.
37. The total amount of funds invested by the Griffiths' three investors are still outstanding.
38. The Director, Legal and Enforcement ("Director") of the Commission has received applications from M.G., P.G. and the estate of P.D. for claims for financial loss compensation. The Director requests that the Commission order financial loss compensation in amounts to be determined at or prior to the hearing.

ALLEGATIONS

1. Staff of the Commission allege that:

- i) Griffiths traded in securities other than those specifically authorized by his registration under the Act;
- ii) Reynolds traded in securities other than those specifically authorized by his registration under the Act;
- iii) Reynolds, as branch manager, authorized Griffiths to engage in trading in securities other than those specifically authorized by his registration under the Act;
- iv) Griffiths and Reynolds did not ensure that the Digital World securities were an approved product for sale by Portfolio Strategies personnel;
- v) The conduct of Reynolds and Griffiths, as set out above, was contrary to the public interest;
- vi) and that due to these allegations:

vii) it is in the public interest pursuant to section 19(5) that Reynolds and Griffiths should not be entitled to use of any of the exemptions set out in the Act, and should not be able to participate in the exempt markets in the future;

viii) Griffiths and Reynolds should be ordered to pay an administrative penalty pursuant to section 148.1(1) of the Act;

ix) Reynolds' registration under the Act as a branch manager should be suspended or cancelled;

x) Griffiths and Reynolds should be ordered to pay M.G., B.G. and the estate of P.D. compensation for financial loss pursuant to subsection 148.2(3) of the Act.

2. As against Portfolio Strategies, Staff of the Commission allege that a contravention or failure to comply as itemized in section 148.2(3)(a) of the Act on the part of Reynolds and Griffiths occurred in the course of their employment by, or which they were acting on behalf of Portfolio Strategies and that, accordingly, pursuant to section 148.2(4) of the Act, Portfolio Strategies be ordered jointly and severally to pay any compensation for financial loss ordered to be paid to M.G., B.G. and the estate of P.D. pursuant to section 148.2(3) of the Act.

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

DATED at the City of Winnipeg, in Manitoba this 7th of June, 2007.

Director – Legal and Enforcement

TO: PORTFOLIO STRATEGIES CORPORATION

AND TO: JOHN DAVID GRIFFITHS

AND TO: RANDY KENNETH REYNOLDS