

**IN THE MATTER OF: THE SECURITIES ACT**

**-and-**

**IN THE MATTER OF: WFG SECURITIES OF CANADA INC.**

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

**STAFF OF THE MANITOBA SECURITIES COMMISSION ALLEGE, INTER ALIA,  
THAT:**

**A. REGISTRATION**

1. WFG Securities of Canada Inc. ("WFG") is presently and at all material times has been registered as a mutual fund dealer under *The Securities Act* (the "Act").

**B. SUPERVISION AND COMPLIANCE**

2. WFG at all material times operated and continues to operate its head office out of Vaughan, Ontario and has several branch offices located in the City of Winnipeg (the "Winnipeg Branch Offices").

3. WFG had and continues to have a role in the ongoing monitoring of client accounts as well as the monitoring of the activities of salespersons in the employ of WFG.

**C. LEVERAGED ACCOUNTS**

1. At all material times WFG and its salespersons opened accounts with clients whereby WFG and its salespersons recommended and/or assisted clients in borrowing money to invest in mutual funds (the "Leveraged Accounts").

2. Under WFG compliance policies, every Leveraged Account opened must be approved by the WFG Compliance Department.

3. At all relevant times WFG maintained policies in connection with the opening of Leveraged Accounts. Since June 14, 2006, these policies contained leveraging parameters which include:

- Clients must have a risk tolerance of medium or higher;
- Borrowed funds must not exceed 40% of the client's verifiable total net worth (no differentiation will be made between total net worth and liquid net worth);
- Client investment horizon must be long term;
- Client investment knowledge must be good or excellent;

- Minimum family income must be \$25,000 or more;
- Clients must be able to afford to service their debt load using their own demonstrated personal income. The following methods to fund a loan are prohibited: systematic withdrawal plans (SWP's) and cash distributions from underlying funds;
- For portfolios in excess of \$25,000 representatives should consider diversifying to a number of individually chosen funds or a portfolio product offered by WFG approved providers;
- Independent Legal Advice ("ILA") must be obtained for all loans of \$250,000 or more. If this is already a requirement of the lender you will not be required to obtain additional ILA.

#### **D. DETAILS**

1. In or about March - April, 2007 Staff of The Manitoba Securities Commission ("MSC Staff") conducted limited reviews of two WFG offices located in Winnipeg (the "Leila Branch" and the "Portage Avenue Branch").

2. During the course of the foregoing reviews, MSC Staff became concerned about the number of Leveraged Accounts at the two WFG Winnipeg Branch Offices.

3. MSC Staff referred its concerns to the Mutual Fund Dealers Association who subsequently performed a review of the WFG head office and several branch offices of WFG in Manitoba and elsewhere.

4. Due to ongoing concerns of MSC Staff with respect to the Leveraged Accounts, MSC Staff initiated an investigation into the Leveraged Accounts at the Winnipeg Branch Offices.

5. MSC Staff commenced a review of Leveraged Accounts at several of the WFG Winnipeg branches between November 2008 - June 2009. During this timeframe and since, MSC Staff received a number of complaints from WFG clients relating to the Leveraged Accounts.

6. A review of the complaints received and a number of Leveraged Accounts at the Winnipeg Branch Offices revealed problems relating to the Leveraged Accounts including:

i) WFG salespersons recommending to clients that they borrow funds for securities purchases where such an investment strategy was unsuitable given the clients' personal circumstances;

ii) Inaccurate Know Your Client ("KYC") forms were located in client accounts where the clients' investment knowledge, income, risk tolerance, and/or investment objectives were incorrectly stated;

iii) Inaccurate loan applications to support borrowing for the Leveraged Accounts were found where net worth of WFG clients and debts were incorrectly recorded and which applications were used to support a loan in relation to the Leveraged Accounts;

iv) The Leveraged Accounts were promoted as a means to increase cash flow for the WFG clients;

v) Risks associated with the Leveraged Accounts were not being explained adequately, or at all, to WFG clients by WFG salespersons;

vi) Leveraged Accounts were being promoted whereby WFG clients were being told that they would not have to make payments on the loans in support of the Leveraged Accounts with said loans being interest only payments to be paid out of distributions from mutual fund purchases in the Leveraged Accounts.

7. Several WFG clients interviewed by MSC Staff indicated they could not afford to pay the loans in connection with the Leveraged Accounts without receiving distributions from the mutual funds purchased.

8. Under WFG policies, every Leveraged Account opened by WFG and its salespersons must be approved by WFG Compliance Department. Leveraged Accounts were also to be reviewed and approved by WFG Branch Managers at the Winnipeg Branches.

9. Additional issues concerning WFG operations have been identified by MSC Staff. They are:

### **NRD FILING DEFICIENCIES**

10. Pursuant to National Instrument 33-109 ("NI 33-109"), WFG is required to provide prescribed information to the Commission in connection with an individual's registration under the Act. This information assists the Commission in assessing an individual's fitness for registration.

11. The information provided pursuant to NI 33-109 is provided in accordance with National Instrument 31-102 *National Registration Database* ("NI 31-102") which includes providing information concerning individuals applying for registration under the Act. This information is submitted using Form 33-109F4 (the "NRD Submissions").

12. In November, 2007, MSC Staff provided WFG with a summary of deficiencies regarding its NRD Submissions for Manitoba individuals. These deficiencies included failing to provide required information under NI 33-109 and providing incorrect information. MSC Staff provided this information to WFG due to the amount of deficient NRD Submissions MSC Staff were receiving from WFG.

13. Along with the summary of deficiencies, MSC Staff requested WFG review certain items of Form 33-109F4 and advise WFG of information to be submitted in connection with its NRD Submissions. Further, MSC Staff advised WFG that the deficiencies addressed by MSC Staff were repetitive and for WFG to review NRD Submissions prior to submitting them to MSC Staff.

14. Since November, 2007, WFG continued to file with MSC Staff deficient NRD Submissions for Manitoba individuals.

### **INACCURATE NRD RECORD KEEPING**

15. At all material times under NI 33-109, individuals registered under the Act were to notify the regulator in accordance with NI 31-102 of a change to any information previously submitted in Form 33-109F4 within five (5) business days of the change. This included, but was not limited to, employment location changes.

16. WFG Securities' Policies, Supervisory and Compliance Procedures Manual requires WFG salespersons to disclose any change that affects their initial NRD Submission. Further, the said manual provides that if any information on a WFG NRD disclosure changes, the individual must update their NRD submission immediately and contact WFG Securities Licensing Department for processing.

17. On March 27, 2007, NRD records indicated there were 40 registrants, including the Branch Manager, at the WFG Leila Branch.

18. On March 28, 2007 MSC Staff attended at the Leila Branch and was advised by the Branch Manager that the number of registrants working out of the Leila Branch was 15. The Branch Manager provided MSC Staff with documentation confirming this.

19. The Branch Manager further advised that a number of salespersons listed on the NRD Report above had moved to the Portage Avenue Branch some time in December, 2006.

20. On March 29, 2007, NRD records showed there were four (4) registrants, including the Branch Manager, working out of the Portage Avenue Branch.

21. MSC Staff attended the Portage Avenue Branch on or about April 4, 2007. MSC Staff was able to determine after examination of the Leila and Portage Avenue Branches that the number of registrants working out of the Portage Avenue Branch was at least 20.

22. As a result of the foregoing, MSC Staff conducted a limited review of WFG Head Office records, WFG Branch Office records (the "WFG Records") and NRD Records in connection with the employment location of registrants with WFG. MSC Staff found numerous instances where the employment location of WFG registrants in the WFG Records did not match NRD records.

23. Further, MSC Staff found instances where registrants with WFG were working at branch office locations that differed from locations indicated in the WFG Records, in addition to the NRD Records.

### **FAILURE OF LEILA BRANCH TO MAKE PREMISES AVAILABLE TO MSC STAFF FOR AUDIT PURPOSES**

24. On March 27, 2007, MSC Staff provided notification to the Leila Branch Manager that MSC Staff would be in attendance on March 28 and March 29, 2007, to conduct a limited examination of its books and records. MSC Staff received confirmation that the fax had been successfully delivered to the Leila Branch.

25. On March 28, 2007, MSC Staff attended to the Leila Branch during business hours and repeatedly tried to gain admittance to the office but was unable to do so as the doors remained locked.

26. MSC Staff, while attempting to enter the premises, placed several calls to the Leila Branch telephone number recorded in NRD.

27. Some of the calls placed by MSC Staff were answered by machine indicating that the 99 Scurfield Boulevard Branch of WFG had been reached. According to NRD Records the WFG Branch on Scurfield Boulevard was closed in June 2006. Other calls made to the Leila Branch were automatically forwarded to a number and when this number was called a message was received that the caller was unavailable.

28. Given MSC Staff's inability to access the Leila Branch for the purpose of conducting an audit, the WFG Compliance Officer was advised of the situation.

29. MSC Staff further learned the Leila Branch Manager did not follow WFG policy which stated that the Chief Compliance Officer shall be notified immediately if a Provincial Securities Department contacts the branch about a securities related matter.

### **BRANCH MANAGER REVIEW OF TRADING ACTIVITY**

30. As part of its review of the Portage Avenue Branch operations, MSC Staff reviewed the Branch Manager's supervision of the Branch's trading activity.

31. The Branch Manager of the Portage Avenue Branch advised MSC Staff that a review of Know Your Client Forms and accompanying trade tickets were done by "team leader" and not by the Branch Manager.

32. The Branch Manager further advised MSC Staff that he reviewed forms for completeness prior to sending them to Head Office but it was the team leader who reviews client information and suitability of trades. The Portage Avenue Branch Manager also stated he did not complete daily trade blotter reviews of trading activity within the Branch and made limited use of WINFUND for review of activity in the Branch.

33. MSC Staff also reviewed WFG practices for approval of trades and day to day account opening at branches where the Branch Manager was away from the office or otherwise unavailable. In such situations WFG would allow day to day account opening or trading approvals being approved by a Branch Manager from another location who did not have access to client files for review prior to providing approvals.

## **E. ALLEGATIONS**

1. Staff of the Commission allege that WFG:

- a) approved the opening of the Leveraged Accounts when such an investment strategy was unsuitable given the clients' personal circumstances;
- b) approved the opening of the Leveraged Accounts which did not comply with the Leveraging Parameters contained in WFG Compliance Bulletins and/or Supervisory and Compliance Procedure Manuals;
- c) alternatively failed to detect on a timely basis, or at all, the extent and unacceptable use of Leveraged Accounts being opened by WFG salespersons;
- d) failed to act in a timely and effective manner when potential problems regarding the Leveraged Accounts were identified;
- e) failed to properly supervise the activities of WFG salespersons in regards to the Leveraged Accounts;
- f) failed to act fairly, honestly and in good faith towards WFG clients where Leveraged Accounts were opened;
- g) continued to file deficient NRD submissions contrary to MSC Staff instructions;
- h) failed to keep NRD and WFG records updated in connection with location of WFG salespersons;
- i) failed to supervise adequately or at all WFG managers in Winnipeg in connection with their supervision over trading activity within their respective branch offices;
- j) the conduct of WFG, as set out above, was contrary to the public interest;

and due to any or all of the foregoing allegations, WFG acted improperly and contrary to the public interest and that pursuant to section 8 of the Act as to its registration, WFG be reprimanded, terms and conditions on its registration be imposed and/or its registration be suspended or cancelled.

2. WFG pay the costs of the investigation.

3. SUCH FURTHER AND OTHER MATTERS as counsel may advise and the Commission may permit.

DATED at Winnipeg, Manitoba this 4th day of May, 2010.

**Director, Legal and Enforcement**

**TO: WFG SECURITIES OF CANADA INC.**