Mutual Fund Dealers Association of Canada
Association canadienne des courtiers de fonds mutuels

IN THE MATTER OF A DISCIPLINARY HEARING
PURSUANT TO SECTIONS 20 AND 24 OF BY-LAW NO. 1 OF
THE MUTUAL FUND DEALERS ASSOCIATION OF CANADA

Re: Bradley Gerard Crompton, Michelle Ann Crompton and William Craig Henderson

Heard: March 9, 2015, in Toronto, Ontario
Reasons for Decision: March 26, 2015

REASONS FOR DECISION

Hearing Panel of the Central Regional Council:

Mark J. Sandler	Chair
Nick Pallotta	Industry Representative
Selwyn Kossuth	Industry Representative

Appearances:

H.C. Clement Wai	)	For the Mutual Fund Dealers Association of Canada
Bradley Gerard Crompton	)	Not in attendance nor represented by Counsel
Michelle Ann Crompton	)	Not in attendance nor represented by Counsel
William Craig Henderson	)	Not in attendance nor represented by Counsel

INTRODUCTION

1. Notices of Hearing were issued by the Mutual Fund Dealers Association of Canada ("MFDA") alleging misconduct against Bradley Gerard Crompton ("Brad Crompton" or "Crompton"), Michelle Ann Crompton ("Ms. Crompton"), William Craig Henderson ("Henderson"), William Morris Adams ("Adams"), and Ian Omar Webster ("Webster"). The allegations were interrelated.

2. At a teleconference conducted on October 28, 2014, the hearing panel set March 9, 2015 for the hearing into these allegations. Four days were set aside. All of the Respondents participated directly or through their counsel (or both) in the setting of the hearing dates.

3. On March 9, 2015, the hearing panel was advised that a Settlement Agreement had been entered into between Staff of the MFDA ("Staff") and the Respondent, Adams. After we heard submissions from Staff and counsel for Adams *in camera*, we approved the Settlement Agreement. As a result, the proceedings involving Adams, including our Order became public. We have since released written reasons for approving the Settlement Agreement.

4. Staff advised us that it was discontinuing the proceedings against Webster. Accordingly, it was unnecessary for us to address his matter.

5. The remaining Respondents did not attend for their hearing. As already indicated, they fully participated in setting the dates for their hearing. In response to queries in writing from Staff, two of the three Respondents indicated that they did not intend to attend their hearing. The third Respondent did not respond. Staff was also notified well prior to the hearing that counsel who had earlier appeared on the Respondents' behalf was no longer retained to act for them. The only inference available on the evidence is that the Respondents have all chosen not to participate in their hearing.

6. In summary, the Respondents have expressed no intention to participate in their hearing. The only indications are to the contrary. They did not indicate any desire that the proceedings be

adjourned for any reason. The Notices of Hearing served on the Respondents specifically advised them that, if they fail to attend their hearing, it may take place in their absence. Staff was prepared to proceed on the dates set for the hearing. Four days had been set aside. In the circumstances, we directed that the hearing proceed in the absence of the Respondents. We have the discretion to do so pursuant to Rule 7.3 item 1 and Rule 13.5 of the MFDA Rules of Procedure.

7. Rule 7.3(1) item 2 and Rule 13.5 also confer discretion on a hearing panel to accept the facts alleged and conclusions drawn by the MFDA in a Notice of Hearing as proven if a Respondent fails to attend the hearing. Again, the discretion to do so was clearly set out in the Notices of Hearing served on each of the Respondents.

8. Given the circumstances outlined above, we were satisfied that this was an appropriate case in which to exercise our discretion to permit the MFDA to rely on the facts pleaded in the Notices of Hearing as proven. This, of course, did not relieve us of the obligation to carefully review the Notices of Hearing, together with any additional evidence tendered by Staff to determine whether each of the contraventions alleged in the Notices of Hearing was proven.

9. Staff supplemented the facts contained in the Notices of Hearing in two ways. First, Staff called Adams as a witness. He adopted as accurate, and elaborated upon, the facts contained in his Settlement Agreement. Second, Staff called Ms. Siu, one of the investigators, to introduce additional facts and documents not otherwise reproduced in the facts contained in the Notices of Hearing.

10. In addition to the *viva voce* evidence, which was admissible against all three Respondents, we considered the facts contained in the Notice of Hearing respecting Mr. Crompton as against him, and separately considered the facts contained in the Notice of Hearing respecting Ms. Crompton and Mr. Henderson as against them. This separate consideration of each set of facts was mandated because Rule 7.3(1) item 2 does not, in our view, permit the facts contained in a Notice of Hearing respecting one Respondent to be adopted as proven as against another

Respondent who was served with another Notice of Hearing. That being said, there was considerable overlap between the facts contained in each Notice of Hearing.

11. We accept the undisputed evidence of Mr. Adams and Ms. Siu. Both gave clear, consistent evidence supported by existing documentation. Coupled with the facts contained in the Notices of Hearing, we are satisfied that Mr. Crompton, Ms. Crompton and Mr. Henderson engaged in the misconduct alleged in each of the Notices of Hearing.

THE FACTS

Registration Histories

12. From May 2, 2007 to January 10, 2008, Brad Crompton was registered in Ontario as a mutual fund salesperson with Monarch Wealth Corporation ("Monarch"), a Member of the MFDA. From July 2003 to March 30, 2007, he was registered in Ontario as a mutual fund salesperson with Desjardins Financial Security Investments Inc. ("Desjardins"), a Member of the MFDA. Prior to Desjardins, he had been registered as a mutual fund salesperson since 1996. He is currently not registered in the securities industry in any capacity.

13. Between May 3, 2007 and October 20, 2008, Ms. Crompton was registered in Ontario as a mutual fund salesperson and branch manager with Monarch. From June 30, 2006 to March 30, 2007, she was registered in Ontario as a mutual fund salesperson and branch manager with Desjardins. She had been registered as a mutual fund salesperson since 1997. She is currently not registered in the securities industry in any capacity.

14. Between May 3, 2007 and October 20, 2008, Henderson was registered in Ontario as a mutual fund salesperson with Monarch. From June 30, 2006 to March 30, 2007, Henderson was registered in Ontario as a mutual fund salesperson with Desjardins. Henderson had been registered as a mutual fund salesperson since 1997. Henderson is currently not registered in the securities industry in any capacity.

Background

15. At all material times, Brad Crompton, Ms. Crompton and Henderson worked out of a branch office located at 4100 Yonge Street, Toronto Ontario (the "York Mills Branch"). Ms. Crompton was the branch manager of the York Mills Branch. Adams worked in an Ottawa office.

16. In or around November 2006, Desjardins conducted a review of the York Mills Branch. The branch review revealed, amongst other things, that Approved Persons at the York Mills Branch, including Crompton, Ms. Crompton and Henderson were engaged in outside business activities and selling products that were not known to or approved by Desjardins. In particular, the Approved Persons were involved with a company called Canada Mortgage & Lending Corp ("CMLC") and were promoting a leveraged investment strategy called "Debt Free…For Life". The branch review revealed that Crompton was the President of CMLC.

17. As a result of the branch review, Crompton, Ms. Crompton and Henderson resigned from Desjardins and transferred their registration to Monarch effective May 2, 2007.

18. While registered with Monarch, the York Mills Branch operated under the trade name of Canada Mortgage & Lending Corp. The "CMLC" trade name was approved by Monarch to be used in conjunction with the business of Monarch.

19. Commencing in or around November 2008, Monarch received a number of complaints from clients of the York Mills Branch. The complaints involved a leveraged investment strategy.

20. Monarch conducted an investigation into the complaints and found, amongst other things, that unregistered individuals were servicing client accounts and that the clients' net worth and/or incomes had been inflated on loan applications.

CMLC and Debt Free...For Life

21. CMLC promoted through newspaper ads and other media a leveraged investment strategy called "Debt Free…For Life" (the "Leveraged Investment Strategy"). The Leveraged Investment Strategy was not known to or approved by Monarch. (Monarch was aware that clients at the York Mills Branch were implementing leveraged investment strategies in their accounts but was not aware of the promotion or branding of those leveraged investments to clients as part of the "Debt Free…for Life" program.)

22. Individuals answering the ads would receive an information package through the mail from CMLC entitled "Special Report". The Special Report contained information regarding a program (the Leveraged Investment Strategy) which purported to, amongst other things, consolidate debt and increase a client's cash flow while reducing their taxes.

23. CMLC would contact the individuals to set up meetings with CMLC representatives to discuss the Leveraged Investment Strategy.

24. The Leveraged Investment Strategy included recommendations that interested individuals become clients, obtain investment loans or refinance the equity in their homes and use the borrowed monies to purchase mutual funds and, for certain clients, a universal life insurance policy.

25. In most cases the borrowed monies were used to purchase return of capital ("ROC") mutual funds. CMLC represented to the clients that the monthly distributions from the mutual funds they invested in would be sufficient to cover the payments on their investment loans, the premiums on their life insurance policies and/or provide extra income.

Allegation 1 (Notice of Hearing Respecting Crompton): Facilitating a Stealth Advising Arrangement and Failing to Perform the Necessary Due Diligence to Ensure Suitability

26. Brad Crompton was the President and directing mind of CMLC.

27. In or around May 2007, CMLC hired two non-registered persons to meet with clients. The non-registered persons were not employees or agents of Monarch. They were trained and instructed by CMLC to present the Leveraged Investment Strategy to interested individuals.

28. The non-registered persons would meet with clients, obtain relevant information from the clients, recommend the Leveraged Investment Strategy to the clients and then complete the requisite documents, including a New Account Application Form ("NAAF") and loan documents, to facilitate the implementation of the Leveraged Investment Strategy for interested clients.

29. Crompton (and as later reflected, Ms. Crompton) instructed the non-registered persons to get the clients to sign the NAAF and the loan documents in blank (i.e. without the client's Know Your Client ("KYC") information filled out). The documents would then be sent to the CMLC Underwriting Department. The Underwriting Department would then populate the KYC information in the documents in a manner which would ensure the documentation would pass supervisory review by Monarch. Then Crompton along with other registered Approved Persons at CMLC would review the NAAF and loan documents for completeness and sign as the mutual fund salesperson ostensibly servicing the accounts. Once the NAAF and loan documents were signed by Crompton and other registered Approved Persons the documents would be returned to the Underwriting Department for processing through Monarch.

30. The clients were led to believe that the non-registered person was the mutual fund salesperson responsible for servicing their account.

31. On May 15, 2007, client NB attended the CMLC office and met with a non-registered individual. The non-registered individual recommended the Leveraged Investment Strategy to client NB. As part of the Leveraged Investment Strategy, Client NB borrowed $50,000 and purchased ROC mutual funds with the proceeds of the loan. Crompton was the mutual fund salesperson of record on the account.

32. On August 14, 2007, clients DM and AM attended the CMLC office and met with a non-

registered individual. The non-registered individual recommended the Leveraged Investment Strategy to clients DM and AM. As part of the Leveraged Investment Strategy, Clients DM and AM borrowed $99,999 and purchased ROC mutual funds with the proceeds of the loan. Crompton was the mutual fund salesperson of record on the account.

33. Staff of the MFDA interviewed clients NB and DM in May 2011. Clients NB and DM confirmed that they had never met Crompton and believed that the non-registered individual was the mutual fund salesperson responsible for servicing their account. In a review of the clients' KYC information on file it was determined that the KYC information for clients NB, DM and AM had been falsified without their knowledge or approval. Specifically, the KYC information for clients NB, DM and AM had been inflated to ensure (or increase the likelihood) that the Leveraged Investment Strategy recommended by the non-registered person and signed-off on by Crompton would be approved by Monarch.

34. Due to Crompton's failure to cooperate with Staff's investigation, as described in further detail below, Staff was unable, at least as of the date of the Notice of Hearing respecting Crompton, to determine the full nature and extent of the involvement of Crompton in the stealth advising scheme and, in particular, what role, if any, Crompton played with respect to the falsification of the clients' KYC information. Crompton was the directing mind of CMLC and it was Crompton along with Ms. Crompton who instructed both the registered and non-registered CMLC staff who met with clients to have the clients sign the NAAF and loan documents in blank without the KYC information filled out.

35. We find that by engaging in the conduct described above, between May 2007 and August 2007, Crompton:

(a) facilitated a stealth advising arrangement whereby non-registered persons engaged in securities related business with clients on behalf of the Member, contrary to MFDA Rules 1.1.1(c) and 2.1.1; and

(b) failed to perform the necessary due diligence to learn the essential facts relative to the clients to ensure that the investments and the leveraged investment strategy

recommended to and implemented in the accounts of the clients was suitable for the clients and in keeping with the clients' investment objectives, contrary to MFDA Rules 2.2.1 and 2.1.1.

Allegation 2 (Notice of Hearing Respecting Crompton): Failure to Cooperate

36. In or around February 2010, Staff contacted Crompton to schedule his attendance at an interview as part of Staff's investigation into his activities while at Monarch. Staff was advised by Crompton that he had retained counsel to represent him. Between March 2010 and August 2010, Staff and Crompton's counsel subsequently communicated with respect to scheduling Crompton's attendance at an interview. Ultimately, on September 16, 2010, Crompton's counsel advised that she was no longer retained by Crompton. She also advised that it was her understanding that Crompton would not be attending an interview with Staff.

37. On September 22, 2010, Staff sent a letter to Crompton requesting his attendance at an interview on October 21, 2010. Crompton failed to attend the interview and on October 26, 2010, Staff wrote again to him requesting his attendance at an interview on November 25, 2010. The letter was delivered to Crompton by personal service. On November 23, 2010, Crompton sent an email to Staff, attaching a letter, in which he stated that he would not be attending the interview on November 25, 2010. In the attached letter, he stated: "I am writing to inform you that I no longer wish to retain or re-license myself with regards to the MFDA…" To date, Crompton has failed to cooperate with Staff's investigation.

38. We find that beginning in or around September 2010, Crompton failed to attend an interview requested by Staff during the course of an investigation, and thereby failed to cooperate with the ongoing investigation, contrary to section 22.1 of MFDA By-law No. 1.

Allegation 4: (Notice of Hearing Respecting Ms. Crompton): Failure to Supervise and Ensure Compliance

39. As already reflected, in or around May 2007, CMLC hired two non-registered persons to meet with clients at the York Mills Branch. The non-registered persons were not employees or

agents of Monarch. The non-registered persons were trained and instructed by CMLC to present the Leveraged Investment Strategy to interested individuals.

40. The non-registered persons would meet with Monarch clients, obtain relevant information from the clients, recommend the Leveraged Investment Strategy to the clients and then complete the requisite documents, including Monarch new account opening documents and investment loan applications, to facilitate the implementation of the Leveraged Investment Strategy in the clients' accounts.

41. Ms. Crompton and Brad Crompton instructed the non-registered persons to get the clients to sign the Monarch new account opening documents and the investment loan applications in blank (i.e. without the client's KYC information filled out). The documents would then be sent to the CMLC Underwriting Department. The Underwriting Department would then populate the KYC information in the documents in a manner which would ensure the documentation would pass supervisory review by Monarch and meet any criteria imposed by the lenders. An Approved Person at the York Mills Branch then reviewed the completed documentation for completeness only and signed it as the mutual fund salesperson ostensibly servicing the accounts. In most cases, the Approved Person who signed the documentation had never met with met with the client; if the Approved Person had met with or spoken to the client briefly, the Approved Person had not engaged in the account opening process with the client in any meaningful way. Once the Monarch new account opening documents and investment loan applications had been signed by the Approved Person, the documents were returned to the Underwriting Department to be delivered to Monarch for processing.

42. At all material times, the clients were led to believe and understood that the non-registered persons at CMLC with whom they dealt were responsible for their accounts.

43. On July 3, 2008, Monarch received a complaint from client MC. Adams was the mutual funds salesperson assigned to the account. Between July and August 2008, Monarch and Ms. Crompton exchanged a series of correspondence with respect to the complaint from client MC.

44. On September 4, 2008, the Ontario Securities Commission ("OSC") received a complaint from client DA. Henderson was the mutual funds salesperson assigned to client DA's account.

45. On or about September 5, 2008, Monarch became aware of eight investment loans processed for clients of the York Mills Branch (as well as clients of Adams in Ottawa) with AGF Trust Inc. that were in arrears. On September 5, 2008, Monarch stopped processing all pending investment loans applications to AGF Trust received from the York Mills Branch (and Adams).

46. On or about September 8, 2008, Monarch became aware of up to 25 clients associated with the York Mills Branch (as well as with Adams in Ottawa) who may have had issues relating to the repayment of their investment loans.

47. On September 9, 2008, Monarch stopped processing all pending investment loan applications to B2B Trust Inc. received from the York Mills Branch (and Adams). Monarch sent a letter to Ms. Crompton dated September 9, 2008, advising that Monarch would not process any further investment loan applications received from the York Mills Branch until all client issues had been investigated and properly resolved. Monarch also stated that they would be conducting a review of the York Mills Branch.

48. On September 10, 2008, Monarch conducted a review of the York Mills Branch. During the review, Monarch was advised by Ms. Crompton that:

a) Despite being aware of issues related to the repayment of investment loans, she had made limited attempts to contact the clients and/or made no attempt to resolve the issues;
b) She had failed to advise Monarch's Compliance Department of any client issues relating to the repayment of investment loans; and
c) She was aware that Brad Crompton, an unregistered person, was providing investment advice with respect to leveraged investing with mutual funds.

49. On September 22, 2008, Monarch sent a letter to Brad Crompton, in his capacity as President of CMLC (which operated the York Mills Branch), summarizing the compliance deficiencies identified at the York Mills Branch during the review and setting out a timeline to rectify the deficiencies. Monarch placed the York Mills Branch on strict supervision for a period of six months and issued a warning letter to Ms. Crompton for inadequate branch supervision and required her to undergo Branch Manager training. Monarch also requested confirmation from Brad Crompton, in his capacity as the President of CMLC, that he would be responsible for reimbursing all clients who had incurred, or would incur, losses, costs or fees relating to the performance of their leveraged investments or any steps required to be taken to unwind the leveraged investments.

50. At all material times, Ms. Crompton was the designated branch manager responsible for supervising trading activity at the York Mills Branch and ensuring that any business conducted on behalf of Monarch at those locations was in compliance with Monarch's policies and procedures, MFDA By-laws, Rules and Policies and applicable securities legislation.

51. The deficiencies at the York Mills Branch were not addressed nor did Brad Crompton confirm that CMLC would reimburse clients for any losses or costs incurred as a result of the leveraged investment activity relating to CMLC, as set out in the September 22, 2008 letter.

52. On October 20, 2008, Monarch terminated Ms. Crompton for failing to adequately supervise investment activity and investment loans processed through the York Mills Branch (including Adams' activity in Ottawa).

53. Due to Ms. Crompton's failure to cooperate with Staff's investigation, as described in further detail below, Staff was unable to determine the full nature and extent of her involvement in the CMLC activity described herein.

54. We find that by engaging in the conduct described above, between May 2007 and October 2008, Ms. Crompton, in her capacity as the designated branch manager, failed to adequately supervise a branch and failed to ensure that the business conducted on behalf of the

Member by Approved Persons at the branch was in compliance with applicable securities legislation and the MFDA By-law and Rules, contrary to MFDA Rules 2.5.3(b), 2.1.1 and MFDA Policy No. 2.

Allegation 5 (Notice of Hearing Respecting Ms. Crompton and Henderson): Failure to Cooperate by Both Respondents

55. In or around February 2010, Staff contacted Ms. Crompton and Henderson to schedule their attendance for an interview as part of Staff's investigation into their activities while at Monarch. Staff was advised that Ms. Crompton and Henderson had retained the same counsel to represent them.

56. Between March 2010 and August 2010, Staff and counsel communicated with respect to scheduling the attendance of Michelle Crompton and Henderson for an interview. Ultimately, on September 16, 2010, counsel advised that he was no longer retained by Ms. Crompton and Henderson. Counsel also advised that it was his understanding that Ms. Crompton and Henderson would not be attending the scheduled interviews.

57. On September 22, 2010, Staff sent letters to Henderson and Ms. Crompton requesting their attendance for interviews on October 19 and 20, 2010. They failed to attend at their respective interviews. On October 26, 2010, Staff wrote to them providing new dates for their interviews. The letters were delivered to both of them by personal service.

58. On November 22, 2010, Henderson sent an email to Staff to advise that he wished to postpone the interview. Henderson wrote: "…I am no longer in the Mutual Fund industry, and I currently do not intend to reinstate my license to sell Mutual Funds." On November 23, 2010, Staff replied to Henderson by email to advise that he was required to attend the interview, failing which, the MFDA would consider initiating disciplinary proceedings against him.

59. On November 23, 2010, Ms. Crompton sent an email to Staff, attaching a letter, in which she stated that she would not be attending the interview on November 24, 2010. In the attached letter, Ms. Crompton stated: "I am writing to inform you that I no longer wish to retain or re-

license myself with regards to the MFDA…"

60. To date, Ms. Crompton and Henderson have failed to cooperate with Staff's investigation.

61. We find that beginning in or around September 2010, Ms. Crompton and Henderson failed to attend an interview requested by Staff during the course of an investigation, and thereby failed to cooperate with an ongoing investigation, contrary to section 22.1 of MFDA By-law No. 1.

62. It is unnecessary for us to summarize the evidence of Adams or Ms. Siu for the purposes of these Reasons. At this stage, it is sufficient to say that the evidence demonstrated, amongst other things, that the failure of any of the three Respondents to cooperate meant that some of their misconduct (later revealed) went undetected until it could no longer be prosecuted in compliance with the existing limitation periods. That other misconduct remains relevant to the issue of penalty.

CONCLUSION

63. With one exception, we find it unnecessary to elaborate upon the Rules that were contravened by the Respondents or discuss the existing jurisprudence with which we are familiar. It is self-evident that, based on the findings we have made, the Rules cited by Staff in the Notices of Hearing have been contravened.

64. The one elaboration is this. Allegation 1(b) against Crompton and Allegation 4 against Ms. Crompton are articulated as a failure to perform due diligence to ensure suitability and as a failure to adequately supervise a branch office and ensure compliance respectively. These contraventions are indeed supported by both the evidence and the Rules cited. However, we note that one of the Rules cited in relation to each of these allegations is Rule 2.1.1. It provides more generally, amongst other things, that each Approved Person of a Member shall (a) deal fairly, honestly and in good faith with its clients; and observe high standards of ethics and conduct in

the transaction of business.

65. The facts in relation to Allegation 1(b) against Crompton and Allegation 4 against Ms. Crompton reveal not only failures of due diligence and supervision, but deliberate dishonesty and ethical violations of the utmost seriousness. On the totality of the evidence, we find that Crompton and Ms. Crompton were knowingly parties to deliberate deception, which included the falsification of documents to ensure approvals of otherwise unsuitable investment decisions.

ORDER

66. Findings of professional misconduct are made in accordance with these Reasons as against Crompton, Ms. Crompton and Henderson. The penalty hearing is to take place on April 15, 2015 commencing at 10 a.m. Although the Respondents are not entitled to further notice of the proceedings, we have directed that Staff advise the Respondents, to the extent possible, of what has transpired to date, including the Reasons of the Hearing Panel, the date set to address penalty, and the opportunity for the Respondents to participate in the penalty hearing, should they now choose to do so.

DATED this 26th day of March, 2015.

"Mark J. Sandler"

Mark J. Sandler
Chair

"Nick Pallotta"

Nick Pallotta
Industry Representative

"Selwyn Kossuth"

Selwyn Kossuth
Industry Representative

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