



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: Stephen Joseph Talosi

NOTICE OF HEARING

NOTICE is hereby given that a first appearance will take place by teleconference before a hearing panel of the Central Regional Council (“Hearing Panel”) of the Mutual Fund Dealers Association of Canada (“MFDA”) on November 4, 2022 at 10:00 a.m. (Eastern), or as soon thereafter as the appearance can be held, concerning a disciplinary proceeding commenced by the MFDA against Stephen Joseph Talosi (the “Respondent”). Members of the public who would like to listen to the teleconference should contact hearings@mfd.ca to obtain particulars.

DATED this 6th day of September, 2022.

“Michelle Pong”

Michelle Pong
Director, Regional Councils

Mutual Fund Dealers Association of Canada
121 King Street West, Suite 1000
Toronto, ON M5H 3T9
Telephone: 416-945-5134
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NOTICE is further given that the MFDA alleges the following violations of the By-laws, Rules or Policies of the MFDA:

Allegation #1: Between about February 2019 and June 2019, the Respondent sent confidential client information to a third party without ensuring that the clients had provided prior consent, contrary to the Member's policies and procedures and MFDA Rules 2.1.3, 2.1.1, and 1.1.2 (as it relates to Rule 2.5.1).

Allegation #2: On or about April 1, 2019, the Respondent accessed the system of another MFDA Member using login credentials that were provided to him by an Approved Person registered with the other Member, and sent confidential client information from the system to a third party, without the other Member's knowledge or consent, contrary to MFDA Rules 2.1.3 and 2.1.1.

Allegation #3: On November 28, 2019, the Respondent misled the Member during its investigation into his conduct, contrary to MFDA Rule 2.1.1.

PARTICULARS

NOTICE is further given that the following is a summary of the facts alleged and intended to be relied upon by the MFDA at the hearing:

Registration History

1. Commencing in 1987, the Respondent was registered in the securities industry.
2. From 2006 to March 10, 2020, the Respondent was registered in Ontario as a dealing representative with FundEX Investments Inc. ("FundEX"), a Member of the MFDA.
3. On March 10, 2020, FundEX terminated the Respondent as a result of the conduct described herein, and he is not currently registered in the securities industry in any capacity.
4. At all material times, the Respondent conducted business in the Welland, Ontario area.

Background

5. At all material times, the Respondent was a principal of a company (the "Company") through which the Respondent and four other Approved Persons of FundEX (collectively, the "Company APs") conducted mutual fund business.

6. In 2019, the Company APs were in discussions with Wealthsimple Advisor Services Inc. (“WASI”), a Member of the MFDA, regarding the Company APs transferring their registration and books of business from FundEX to WASI.

7. At all material times, WASI maintained an onboarding process (the “Onboarding Process”) for Approved Persons of other Members who intended to transfer their registration and book of business to WASI.

8. Pursuant to the Onboarding Process, Approved Persons provided confidential client information regarding the clients whose accounts they serviced at the other Members to Wealthsimple Technologies Inc. (“WSTI”), a company affiliated with WASI, prior to the Approved Persons transferring their registration to WASI.

9. The confidential client information included, among other things, client names, social insurance numbers, dates of birth, addresses, email addresses, phone numbers, account numbers, account types, and types and amounts of investments held (the “Client Information”).

Allegation #1 – Sending Confidential Client Information to a Third Party Without Client Consent

10. At all material times, FundEX’s policies and procedures prohibited its Approved Persons from disclosing client information to a third party without the prior written consent of the client.

11. In 2019, the Company APs agreed to participate in WASI’s Onboarding Process, and the Company signed an agreement to send Client Information to WSTI with the intention that the Company APs would subsequently transfer their registrations and books of business from FundEX to WASI.

12. The Respondent agreed to send to WSTI the Client Information of all of the clients whose accounts the Company APs serviced at FundEX.

13. Between about February and June 2019, the Respondent sent to WSTI the Client Information of a total of approximately 1,126 clients whose accounts the Company APs including the Respondent serviced at FundEX.

14. The Respondent did not ensure that clients consented to provide their Client Information to WSTI, and he did not inform FundEX that the Client Information was being sent to WSTI.

15. In late 2019, WASI discontinued its Onboarding Process and ceased accepting new Approved Persons.
16. The Respondent and the other Company APs did not ultimately become registered with WASI.
17. By failing to ensure that clients had consented to provide their Client Information to WSTI as described above, the Respondent compromised the confidentiality of the clients' Client Information.
18. The Respondent thereby failed to maintain the Client Information of clients in confidence and contravened the policies and procedures of FundEX, contrary to MFDA Rules 2.1.3, 2.1.1 and 1.1.2 (as it relates to Rule 2.5.1).

Allegation #2 – Accessing the System of Another Member Without Consent

19. At all material times, LH was an Approved Person registered with another MFDA Member (the "Other Member").
20. The Respondent and LH were acquainted and both intended to transfer their registration to WASI.
21. In 2019, LH agreed to participate in WASI's Onboarding Process and signed an agreement to send Client Information to WSTI with the intention that he would transfer his registration to WASI.
22. During the Onboarding Process, LH experienced technical difficulties when attempting to send Client Information to WSTI, and he requested assistance from the Respondent to send Client Information to WSTI on his behalf.
23. On or about April 1, 2019, LH provided the Respondent with LH's login credentials including his username and password to the Other Member's customer relationship management system (the "System") so that the Respondent could access the System and send Client Information to WSTI on behalf of LH.
24. On or about April 1, 2019:

- a) the Respondent, while not in the presence of LH, used LH's username and password to log into the Other Member's System;
- b) while logged into the System, the Respondent shared his screen remotely with WSTI Staff;
- c) during the screen-sharing session, WSTI Staff viewed the contents of the Other Member's System and three reports (the "Reports") were generated from the System which contained Client Information; and
- d) the Respondent saved the Reports on his computer and then emailed them to WSTI Staff on behalf of LH.

25. The Other Member was not aware of, and never authorized, any of the activity described above.

26. LH did not ultimately become registered with WASI.

27. By using LH's username and password to access the System of the Other Member, by enabling WSTI Staff to view the System of the Other Member, and by sending Client Information from the System of the Other Member to WSTI without the knowledge or consent of the Other Member as described above, the Respondent:

- a) prevented the Other Member from safeguarding the Client Information that was contained in its System; and
- b) compromised the confidentiality of the clients' Client Information.

28. The Respondent thereby undermined the efforts of the Other Member to maintain the Client Information of clients in confidence, failed to observe high standards of ethics and conduct in the transaction of business, and engaged in conduct which was unbecoming and detrimental to the public interest, contrary to MFDA Rules 2.1.3 and 2.1.1.

Allegation #3 – Misleading the Member

29. On November 28, 2019, the Member interviewed the Respondent with regard to the matters described above.

30. During the interview, the Respondent told the Member that LH did not provide him with LH's username and password to the Other Member's System and he never accessed the Other Member's System.

31. The Respondent's statement to the Member was false or misleading because as described above in paragraphs 23 and 24, on or about April 1, 2019, LH provided the Respondent with LH's username and password to the Other Member's System, and on or about April 1, 2019, the Respondent used LH's username and password to log into the Other Member's System.

32. By misleading the Member as described above, the Respondent engaged in conduct contrary to MFDA Rule 2.1.1.

NOTICE is further given that the Respondent shall be entitled to appear and be heard and be represented by counsel or agent at the hearing and to make submissions, present evidence and call, examine and cross-examine witnesses.

NOTICE is further given that MFDA By-laws provide that if, in the opinion of the Hearing Panel, the Respondent:

- has failed to carry out any agreement with the MFDA;
- has failed to comply with or carry out the provisions of any federal or provincial statute relating to the business of the Member or of any regulation or policy made pursuant thereto;
- has failed to comply with the provisions of any By-law, Rule or Policy of the MFDA;
- has engaged in any business conduct or practice which such Regional Council in its discretion considers unbecoming or not in the public interest; or
- is otherwise not qualified whether by integrity, solvency, training or experience,

the Hearing Panel has the power to impose any one or more of the following penalties:

- a) a reprimand;
- b) a fine not exceeding the greater of:
 - (i) \$5,000,000.00 per offence; and
 - (ii) an amount equal to three times the profit obtained or loss avoided by such person as a result of committing the violation;
- c) suspension of the authority of the person to conduct securities related business for such specified period and upon such terms as the Hearing Panel may determine;
- d) revocation of the authority of such person to conduct securities related business;

- e) prohibition of the authority of the person to conduct securities related business in any capacity for any period of time; and
- f) such conditions of authority to conduct securities related business as may be considered appropriate by the Hearing Panel.

NOTICE is further given that the Hearing Panel may, in its discretion, require that the Respondent pay the whole or any portion of the costs of the proceedings before the Hearing Panel and any investigation relating thereto.

NOTICE is further given that the Respondent must **serve a Reply** on Enforcement Counsel and **file a Reply** with the Office of the Corporate Secretary within twenty days from the date of service of this Notice of Hearing.

A **Reply** shall be **served** upon Enforcement Counsel at:

Mutual Fund Dealers Association of Canada
121 King Street West, Suite 1000
Toronto, ON M5H 3T9
Attention: Paul Blasiak
Email: pblasiak@mfd.ca

A **Reply** shall be **filed** by:

- a) providing four copies of the **Reply** to the Office of the Corporate Secretary by personal delivery, mail or courier to:

The Mutual Fund Dealers Association of Canada
121 King Street West, Suite 1000
Toronto, ON M5H 3T9
Attention: Office of the Corporate Secretary; or

- b) transmitting one electronic copy of the **Reply** to the Office of the Corporate Secretary by e-mail at corporatesecretary@mfd.ca.

A **Reply** may either:

- (i) specifically deny (with a summary of the facts alleged and intended to be relied upon by the Respondent, and the conclusions drawn by the Respondent based on the alleged facts) any or all of the facts alleged or the conclusions drawn by the MFDA in the Notice of Hearing; or

- (ii) admit the facts alleged and conclusions drawn by the MFDA in the Notice of Hearing and plead circumstances in mitigation of any penalty to be assessed.

NOTICE is further given that the Hearing Panel may accept as having been proven any facts alleged or conclusions drawn by the MFDA in the Notice of Hearing that are not specifically denied in the **Reply**.

NOTICE is further given that if the Respondent fails:

- a) to **serve and file a Reply**; or
- b) attend at the hearing specified in the Notice of Hearing, notwithstanding that a **Reply** may have been served,

the Hearing Panel may proceed with the hearing of the matter on the date and the time and place set out in the Notice of Hearing (or on any subsequent date, at any time and place), without any further notice to and in the absence of the Respondent, and the Hearing Panel may accept the facts alleged or the conclusions drawn by the MFDA in the Notice of Hearing as having been proven and may impose any of the penalties described in the By-laws.

END.

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