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

IN THE MATTER OF A SETTLEMENT HEARING
PURSUANT TO SECTION 24.4 OF BY-LAW NO. 1 OF
THE MUTUAL FUND DEALERS ASSOCIATION OF CANADA

Re: GP Wealth Management Corporation

SETTLEMENT AGREEMENT

I. INTRODUCTION

1. By Notice of Settlement Hearing, the Mutual Fund Dealers Association of Canada (the "MFDA") will announce that it proposes to hold a hearing to consider whether, pursuant to section 24.4 of By-law No. 1, a hearing panel of the Central Regional Council (the "Hearing Panel") of the MFDA should accept the settlement agreement (the "Settlement Agreement") entered into between Staff of the MFDA ("Staff") and the Respondent, GP Wealth Management Corporation.

II. JOINT SETTLEMENT RECOMMENDATION

2. Staff conducted an investigation of the Respondent's activities. The investigation disclosed that the Respondent had engaged in activity for which the Respondent could be penalized on the exercise of the discretion of the Hearing Panel pursuant to s. 24.1 of By-law No. 1.

3. Staff and the Respondent recommend settlement of the matters disclosed by the investigation in accordance with the terms and conditions set out below. The Respondent agrees to the settlement on the basis of the facts set out in Part IV herein and consents to the making of an Order in the form attached as Schedule "A".

4. Staff and the Respondent agree that the terms of this Settlement Agreement, including the attached Schedule "A", will be released to the public only if and when the Settlement Agreement is accepted by the Hearing Panel.

III. ACKNOWLEDGEMENT

5. Staff and the Respondent agree with the facts set out in Part IV herein for the purposes of this Settlement Agreement only and further agree that this agreement of facts is without prejudice to the Respondent or Staff in any other proceeding of any kind including, but without limiting the generality of the foregoing, any proceedings brought by the MFDA (subject to Part IX) or any civil or other proceedings which may be brought by any other person or agency, whether or not this Settlement Agreement is accepted by the Hearing Panel.

IV. AGREED FACTS

Registration History

6. The Respondent is registered in Ontario, British Columbia and Saskatchewan as a mutual fund dealer and as an exempt market dealer in Ontario. It has been a Member of the MFDA since April 12, 2002 and its head office is located in Mississauga, Ontario.

Leveraged Client Accounts Transferred Into the Respondent

7. In May 2013, Approved Person AF[1] transferred his dealing representative registration to the Respondent from another MFDA dealer.

8. In or about June 2013, AF caused 88 existing leveraged client accounts to be transferred into the Respondent from his previous dealer (the "Transferred Accounts"). Following the transfers, AF continued to be the servicing dealing representative of those 88 transferred accounts.

9. All 88 of the Transferred Accounts had, at AF's recommendation, implemented a leveraged investment strategy whereby clients obtained investment loans and used some of the proceeds of

[1] AF was registered as a dealing representative with the Respondent from May 29, 2013 to November 1, 2016, when the Respondent terminated him. The Respondent advised the MFDA in its METS filing that AF was terminated for falsifying client documents.

the investment loans to purchase return of capital ("ROC") mutual funds[2] for their accounts (the "Leveraged Investment Strategy").

10. The ROC mutual funds were subject to deferred sales charges ("DSC").

11. AF has stated to Staff that the Leveraged Investment Strategy was based on the premise that the returns generated by the ROC mutual funds each month would be used towards covering the clients' costs of servicing their investment loans.

12. The Leveraged Investment Strategy was high risk.

13. In order to process the transfer of the Transferred Accounts to the Respondent, between June and August 2013, AF submitted new account documents to the Respondent. These account documents included signed Know-Your-Client ("KYC") forms, new account application forms, leverage approval forms, and leverage disclosure forms.

14. Between June 10, 2013 and August 14, 2013, the Respondent's compliance personnel reviewed and subsequently approved the account transfers. For the tier 2 review, documents relating to 86 of the 88 Transferred Accounts were reviewed and approved for transfer by the same compliance officer on a nearly daily basis between June 10, 2013 and August 14, 2013, with an average of between 5 and 8 accounts reviewed daily.

15. At the time the accounts were transferred to the Respondent, the Transferred Accounts had nearly identical KYC information, including, among other things:

- all of the accounts had the same investment time horizon of "10 to 20 years";
- all of the accounts had a risk tolerance of "75% to 85% medium-high" and "15% to 20% high"; and
- 79 of the accounts (90%) had investment objectives of "80%" or "85%" growth / "15%" or "20%" speculation".

[2] "Return of capital" mutual funds are structured to pay a set monthly amount of proceeds to an investor which may include a return of the capital originally invested by the investor. In the event the value of a ROC mutual fund declines due to deteriorating market conditions, poor investment performance or other factors such that the amount of the promised monthly proceeds exceeds the increase in the value of the fund, there is a real and substantial risk that the fund will be required to reduce, suspend or cancel altogether, the monthly proceeds paid to investors.

16. In addition, the Respondent's compliance staff identified that the market value of some of the Transferred Accounts was less than the outstanding amount of the clients' investment loans obtained to purchase the investments at the time of transfer to the Respondent.

17. Between August 2013 and November 2016, AF also opened and became the servicing dealing representative for 23 new leverage accounts (the "New Leveraged Accounts") which were approved by the Respondent. The New Leveraged Accounts were also invested in ROC funds, among other mutual funds. During this period, the Respondent also approved loan agreements for 5 existing accounts serviced by AF (the "Loan Re-Writes").

18. Nearly all of the New Leveraged Accounts had the same KYC information, namely:

- an investment time horizon of "10 to 20 years";
- a risk tolerance of "75% to 85% medium-high" and "15% to 20% high"; and
- an investment objective of "80%" or "85%" growth / "15%" or "20%" speculation".[3]

19. The Respondent did not adequately supervise the Transferred Accounts, the New Leveraged Accounts, or the Loan Re-Writes to assess whether the KYC information recorded by former Approved Person AF was reasonable in light of its uniformity.

Additional Factors

20. The Respondent states that after the KYC uniformity identified above was discovered by MFDA compliance staff during a sales compliance examination, the Respondent incorporated changes in its branch and desk review program to review KYC and new account application forms in order to, among other things, identify patterns in client accounts with respect to risk tolerance, investment objectives and investment time horizon. The Respondent further states that, as of late 2019, its back-office operating system is now capable of automatically identifying patterns with KYC uniformity.

21. The Respondent states that, since November 2016, when it advised Staff that it terminated AF for falsifying client documents used for leverage loan applications:

[3] The New Leveraged Accounts and Loan Re-Writes were primarily reviewed and approved by one single compliance officer.

a) it issued letters to all of the clients whose accounts were serviced by AF informing them that he was no longer registered with the Respondent and assigned a new dealing representative to their accounts;

b) it issued additional letters to clients whose accounts had been serviced by AF in cases where the Respondent flagged such accounts for possible discrepancies in some or all of the accounts' KYC information, and further asked those clients to meet with the Respondent or the newly assigned dealing representative to discuss, correct or confirm such KYC information; and

c) it worked with the newly assigned dealing representatives to review and reassess the relevant KYC information in the accounts of clients who responded to the Respondent's above-noted requests to contact it.

22. The Respondent has not previously been the subject of MFDA disciplinary proceedings.

23. The Respondent has cooperated with Staff during its investigation and during this disciplinary proceeding.

V. CONTRAVENTIONS

24. The Respondent admits that, between June 2013 and at least May 2016, it failed to adequately detect and query uniformity in the Know Your Client information recorded by former Approved Person AF for 88 leveraged accounts transferred to the Respondent, 23 new leveraged accounts opened at the Respondent, and 5 loan renewals in existing accounts at the Member, contrary to MFDA Rules 2.2.1[4] and 2.5.1 and MFDA Policy No. 2.[5]

VI. TERMS OF SETTLEMENT

25. Upon acceptance of this Settlement Agreement, the Respondent agrees to the following terms of settlement:

[4] Effective December 31, 2021, MFDA Rule 2.2.1 was amended. As the Respondent engaged in the alleged misconduct addressed in this proceeding prior to December 31, 2021, Staff is relying on the wording in the version of MFDA Rule 2.2.1 that was in effect prior to the amendments.

[5] Effective September 12, 2013 and subsequently thereafter, MFDA Policy No. 2 was amended. As the Respondent engaged in the alleged misconduct addressed in this proceeding beginning June 2013, Staff is relying on the wording in the versions of MFDA Policy No. 2 that was in effect from time to time during the period of the alleged misconduct.

a) the Respondent shall pay a fine in the amount of $20,000, pursuant to section 24.1.2(b) of By-law No. 1, upon the acceptance of this Settlement Agreement;

b) the Respondent shall pay the costs of this proceeding and investigation in the amount of $5,000, pursuant to section 24.2 of By-law No. 1, upon the acceptance of this Settlement Agreement;

c) the Respondent shall in the future comply with MFDA Rules 2.2.1 and 2.5.1 and MFDA Policy No. 2; and

d) a senior officer of the Respondent will attend in person via videoconference, on the date set for the Settlement Hearing.

VII. STAFF COMMITMENT

26. If this Settlement Agreement is accepted by the Hearing Panel, Staff will not initiate any proceeding under the By-laws of the MFDA against the Respondent or any of its officers or directors in respect of the facts set out in Part IV and the contraventions described in Part V of this Settlement Agreement, subject to the provisions of Part IX below. Nothing in this Settlement Agreement precludes Staff from investigating or initiating proceedings in respect of any facts and contraventions that are not set out in Parts IV and V of this Settlement Agreement or in respect of conduct that occurred outside the specified date ranges of the facts and contraventions set out in Parts IV and V, whether known or unknown at the time of settlement. Furthermore, nothing in this Settlement Agreement shall relieve the Respondent from fulfilling any continuing regulatory obligations.

VIII. PROCEDURE FOR APPROVAL OF SETTLEMENT

27. Acceptance of this Settlement Agreement shall be sought at a hearing of the Central Regional Council of the MFDA on a date agreed to by counsel for Staff and the Respondent. MFDA Settlement Hearings are typically held in the absence of the public pursuant to section 20.5 of MFDA By-law No. 1 and Rule 15.2(2) of the MFDA Rules of Procedure. If the Hearing Panel accepts the Settlement Agreement, then the proceeding will become open to the public and a copy of the decision of the Hearing Panel and the Settlement Agreement will be made available at www.mfda.ca.

28. Staff and the Respondent may refer to any part, or all, of the Settlement Agreement at the Settlement Hearing. Staff and the Respondent also agree that if this Settlement Agreement is

accepted by the Hearing Panel, it will constitute the entirety of the evidence to be submitted respecting the Respondent in this matter, and the Respondent agrees to waive its rights to a full hearing, a review hearing before the Board of Directors of the MFDA or any securities commission with jurisdiction in the matter under its enabling legislation, or a judicial review or appeal of the matter before any court of competent jurisdiction.

29. Staff and the Respondent agree that if this Settlement Agreement is accepted by the Hearing Panel, then the Respondent shall be deemed to have been penalized by the Hearing Panel pursuant to s. 24.1.2 of By-law No. 1 for the purpose of giving notice to the public thereof in accordance with s. 24.5 of By-law No. 1.

30. Staff and the Respondent agree that if this Settlement Agreement is accepted by the Hearing Panel, neither Staff nor the Respondent will make any public statement inconsistent with this Settlement Agreement. Nothing in this section is intended to restrict the Respondent from making full answer and defence to any civil or other proceedings against it.

IX. FAILURE TO HONOUR SETTLEMENT AGREEMENT

31. If this Settlement Agreement is accepted by the Hearing Panel and, at any subsequent time, the Respondent fails to honour any of the Terms of Settlement set out herein, Staff reserves the right to bring proceedings under section 24.3 of the By-laws of the MFDA against the Respondent or any of its officers or directors based on, but not limited to, the facts set out in Part IV of the Settlement Agreement, as well as the breach of the Settlement Agreement. If such additional enforcement action is taken, the Respondent agrees that the proceeding(s) may be heard and determined by a hearing panel comprised of all or some of the same members of the hearing panel that accepted the Settlement Agreement, if available.

X. NON-ACCEPTANCE OF SETTLEMENT AGREEMENT

32. If, for any reason whatsoever, this Settlement Agreement is not accepted by the Hearing Panel or an Order in the form attached as Schedule "A" is not made by the Hearing Panel, each of Staff and the Respondent will be entitled to any available proceedings, remedies and challenges, including proceeding to a disciplinary hearing pursuant to sections 20 and 24 of By-law No. 1, unaffected by this Settlement Agreement or the settlement negotiations.

XI. NON-ACCEPTANCE OF SETTLEMENT AGREEMENT

33. Whether or not this Settlement Agreement is accepted by the Hearing Panel, the Respondent agrees that it will not, in any proceeding, refer to or rely upon this Settlement Agreement or the negotiation or process of approval of this Settlement Agreement as the basis for any allegation against the MFDA of lack of jurisdiction, bias, appearance of bias, unfairness, or any other remedy or challenge that may otherwise be available.

XII. DISCLOSURE OF AGREEMENT

34. The terms of this Settlement Agreement will be treated as confidential by the parties hereto until accepted by the Hearing Panel, and forever if, for any reason whatsoever, this Settlement Agreement is not accepted by the Hearing Panel, except with the written consent of both the Respondent and Staff or as may be required by law.

35. Any obligations of confidentiality shall terminate upon acceptance of this Settlement Agreement by the Hearing Panel.

XIII. EXECUTION OF SETTLEMENT AGREEMENT

36. This Settlement Agreement may be signed in one or more counterparts which together shall constitute a binding agreement.

37. A facsimile copy of any signature shall be effective as an original signature.

DATED this 9th day of January, 2023.

"Paula Sprentz"

GP Wealth Management Corporation
Per: **Paula Sprentz**

"GA"
Witness – Signature

GA
Witness – Print name

"Charles Toth"

Staff of the MFDA
Per: Charles Toth
Vice-President, Enforcement

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IN THE MATTER OF A SETTLEMENT HEARING
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Re: GP Wealth Management Corporation

ORDER

WHEREAS on [date], the Mutual Fund Dealers Association of Canada (the "MFDA") issued a Notice of Settlement Hearing pursuant to section 24.4 of By-law No. 1 in respect of GP Wealth Management Corporation (the "Respondent");

AND WHEREAS the Respondent entered into a settlement agreement with Staff of the MFDA, dated [date] (the "Settlement Agreement"), in which the Respondent agreed to a proposed settlement of matters for which the Respondent could be disciplined pursuant to ss. 20 and 24.1 of By-law No. 1;

AND WHEREAS the Hearing Panel is of the opinion that between June 2013 and at least May 2016, the Respondent failed to adequately detect and query uniformity in the Know Your Client information recorded by former Approved Person AF for 88 leveraged accounts transferred to the Respondent, 23 new leveraged accounts opened at the Respondent, and 5 loan renewals in existing accounts at the Member, contrary to MFDA Rules 2.2.1 and 2.5.1 and MFDA Policy No. 2.

IT IS HEREBY ORDERED THAT the Settlement Agreement is accepted, as a consequence of which:

1. The Respondent shall pay a fine in the amount of $20,000, pursuant to section 24.1.2(b) of By-law No. 1, upon the acceptance of this Settlement Agreement;

2. The Respondent shall pay the costs of this proceeding and investigation in the amount of $5,000, pursuant to section 24.2 of By-law No. 1, upon the acceptance of this Settlement Agreement;

3. The Respondent shall in the future comply with MFDA Rules 2.2.1 and 2.5.1 and MFDA Policy No. 2; and

4. If at any time a non-party to this proceeding, with the exception of the bodies set out in section 23 of MFDA By-law No. 1, requests production of or access to exhibits in this proceeding that contain personal information as defined by the MFDA Privacy Policy, then the MFDA Corporate Secretary shall not provide copies of or access to the requested exhibits to the non-party without first redacting from them any and all personal information, pursuant to Rules 1.8(2) and (5) of the MFDA *Rules of Procedure*.

DATED this [day] day of [month], 202[ ].

Name,
Chair

Name,
Industry Representative

Name,
Industry Representative

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