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CASE SUMMARY #200720
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MFDA Case Summary

Enforcement

This case summary was prepared by Staff of the MFDA.

Hearing Panel imposes lifetime ban and \$45,000 fine on Paul Edward Lloyd

Nature of Proceeding A Hearing Panel of the Central Regional Council of the Mutual Fund Dealers Association of Canada (“MFDA”) has imposed disciplinary penalties on Paul Edward Lloyd (the “Respondent”), a former Approved Person of IPC Investment Corporation (“IPC”), a Member of the MFDA.

By-Laws, Rules, Policies Violated Following a hearing on February 12, 2008, the Hearing Panel found that the Respondent had:

(a) failed to ensure that all business conducted by his son, Andrew Lloyd, at IPC’s Peterborough, Ontario branch office complied with applicable securities legislation and the By-laws and Rules of the MFDA, contrary to MFDA Rule 2.5.3(b) and MFDA Policy 2;

(b) failed to disclose a referral arrangement and unauthorized business activity of Andrew Lloyd to IPC and concealed such activities by instructing an alternate branch manager to submit false or misleading information to IPC, contrary to MFDA Rules 2.5.3(b), 2.1.1(b) and (c); and

(c) failed to produce bank records relevant to matters being investigated by the MFDA and failed to attend an interview and give information respecting those matters, contrary to section 22.1 of MFDA By-law No. 1.

MFDA Rule 2.5.3(b) states:

Branch Manager

(b) **Responsibilities.** It is the responsibility of a branch manager to:

- (i) ensure that the business conducted on behalf of the Member by an Approved Person and other employees and agents at the branch is in compliance with applicable securities legislation and the By-laws and Rules;
- (ii) supervise the opening of new accounts and trading activity at the branch office.

MFDA Policy 2 states, in part:

III. Branch Office Account Supervision

Each branch manager must undertake certain activities within the branch for purposes of assessing compliance with the Member's policies and procedures and regulatory requirements. These activities should be designed to identify failures to adhere to required policies and procedures and provide a means of revealing and addressing undesirable account activity.

MFDA Rule 2.1.1(b) and (c) states, in part:

Standard of Conduct. Each Member and each Approved Person of a Member shall:

- (b) observe high standards of ethics and conduct in the transaction of business;
- (c) not engage in any business conduct or practice which is unbecoming or detrimental to the public interest.

Section 22.1 of MFDA By-law No. 1 states:

Investigatory Powers

For the purpose of any examination or investigation pursuant to this By-law, a Member, Approved Person of a Member or other person under the jurisdiction of the Corporation pursuant to the By-laws or the Rules may be required by the Corporation:

- (a) to submit a report in writing with regard to any matter involved in any such investigation;
- (b) to produce for inspection and provide copies of the books, records, and accounts of such person relevant to the matters being investigated;
- (c) to attend and give information respecting any such matters; and
- (d) to make any of the above information available through any directors, officers, employees, agents and other persons under the direction or control of the Member, Approved Person or other person under the jurisdiction of the Corporation;

and the Member or person shall be obliged to submit such report, to permit such inspection, provide such copies and to attend, accordingly. Any Member or person subject to an investigation conducted pursuant to this By-law may be invited to make submission by statement in writing, by producing for inspection books, records and accounts and by attending before the person conducting the investigation. The person conducting the investigation may, in his or her discretion, require that any statement given by any Member or person in the course of an investigation be recorded by means of an electronic recording device or otherwise and may require that any statement be given under oath.

Penalty

The Hearing Panel imposed the following penalties on the Respondent:

1. a permanent prohibition on the authority of the Respondent to conduct securities related business in any capacity while in the employ of, or associated with, any Member of the MFDA;
2. fines in the amount of \$45,000; and
3. costs in the amount of \$2,500.

Summary of Facts

The Respondent was a mutual fund salesperson with IPC from November 1999 to August 2005. During that time, he was also registered in Ontario as a branch manager with IPC. IPC terminated the Respondent on August 17, 2005 and he is not currently registered in the securities industry in any capacity.

Andrew Lloyd, the Respondent's son, was registered as a mutual fund salesperson with IPC from October 1999 to July 2005 and was under the Respondent's supervision at IPC's branch office located at 311 George Street, Peterborough, Ontario (the "Branch Office"). Andrew Lloyd resigned from IPC on July 31, 2005.

S.V. worked at the Branch Office as a mutual fund salesperson and sales assistant from January 2004 until she resigned on September 14, 2005. She was, at all times, under the Respondent's supervision at the Branch Office. In June 2004, S.V. completed the Branch Managers' Course and in July 2004 began acting as an alternate branch manager at the Branch Office. S.V. was given responsibility for certain administrative tasks, including completing and submitting a branch manager's report to IPC on behalf of the Branch Office each quarter.

Allegation 1: Gainful Occupation Outside the Member

In November 2004, Andrew Lloyd entered into a referral arrangement under which he would receive compensation for referring investors to a

company that facilitated investments in offshore companies. The Respondent was aware of the referral arrangement and condoned his son's business activities outside of regular IPC business.

From November 2004 to June 2005, Andrew Lloyd referred 40 IPC clients to the outside company. In total, the clients advanced approximately \$3.9 million to be invested offshore.

IPC placed the Respondent on close supervision on August 9, 2005 and terminated him on August 17, 2005.

On December 7, 2006, the Ontario Securities Commission ("OSC") issued a Notice of Hearing and temporary cease trade order against the offshore companies and their organizers. The OSC alleged that between August 2001 and December 2006, approximately \$23.3 million was invested in the offshore companies, at least \$14.8 million of which had been improperly used or could not be accounted for.

Breach of MFDA Rules

The referral arrangement constituted and/or created other gainful occupation for Andrew Lloyd which neither he, in his capacity as an Approved Person, nor the Respondent, in his capacity as Branch Manager, ever disclosed to IPC, contrary to MFDA Rule 1.2.1(d).

By assisting and permitting Andrew Lloyd to enter into the referral arrangement, and thereby permitting Andrew Lloyd to engage in unauthorized gainful occupation outside of IPC, the Respondent failed to ensure that all business conducted by Andrew Lloyd on behalf of IPC at the Branch Office was in compliance with applicable securities legislation and the By-laws and Rules of the MFDA, contrary to MFDA Rule 2.5.3(b) and MFDA Policy 2.

Allegation 2: Standard of Conduct

The Respondent assigned S.V. responsibility for completing and submitting quarterly branch manager's reports to IPC. S.V. became aware of Andrew Lloyd's referral Arrangement in or about November 2004.

On three occasions between December 2004 and June 2005, S.V. asked the Respondent if she should disclose the referral arrangement in the branch manager's report, however on all three occasions the Respondent directed her either not to disclose it the arrangement or to only provide limited and potentially misleading information to IPC.

Breach of MFDA Rules

The Respondent failed to discharge his responsibilities as a branch manager (i) by failing to disclose the referral arrangement and unauthorized gainful occupation of Andrew Lloyd to IPC and (ii) by instructing an alternate branch manager at the Branch Office, S.V., to submit false or misleading information to IPC in respect of such unauthorized gainful occupation, contrary to MFDA Rules 2.5.3(b) and 2.1.1(b) and (c).

Allegation 3: Failure to Produce Records & Attend Interview

The Respondent was asked to attend an interview with MFDA investigators on various occasions between April 2, 2006 and February 12, 2007. At no time did he attend for an interview. Also, beginning January 4, 2007, the Respondent was asked to produce copies of certain bank records, but at no time were such documents provided to MFDA investigators.

Breach of MFDA Rules

At no time prior to or after the hearing of this matter on February 12, 2008 did the Respondent produce bank records relevant to matters being investigated by the MFDA or attend an interview in order to give information respecting those matters, contrary to section 22.1 of MFDA By-law No. 1.

For greater detail, see the Hearing Panel's *Decision and Reasons* dated February 26, 2008 which is posted on the MFDA's website in the "Completed Cases" section under "Enforcement".