

Nature and Scope of Allegation Chart-MFDA

Companion Piece to the METS Reporting Guide

#	Violation	Definition	Examples*
1.	Acting Outside Registration Status	The trading or giving advice in securities for which a dealer is not registered to trade or give advice.	<ul style="list-style-type: none"> ➤ Example: Giving advice regarding the sale of equities ➤ Example: Assisting an AP who is acting outside their registration status (stealth advising)
2.	Blank Signed Forms	Forms or other documents signed wholly or partially in blank by a client, whether or not the form is ultimately completed and used by the AP.	<ul style="list-style-type: none"> ! Where a blank trading form is signed by client and the AP makes trades without all the elements of a trade (buy/sell, time, price and quantity) it is Discretionary Trading (#35). ! Where an Approved Person falsely reproduces a client's signature (signing client's signature, cutting and pasting signatures, and using photocopied signatures) on a trading authorization form it is Falsification (#13) ➤ Example: Client signs blank trading forms so they can phone in trades
3.	Books and Records and Client Reporting	Failure to maintain at all times a proper system of books and records.	<ul style="list-style-type: none"> ! Failure to obtain the proper trade authorization documentation is Unauthorized/Discretionary Trading (#35) ➤ Example: the failure to keep an adequate written record of each order. ➤ Example: the failure to update NAAFs. ➤ Example: the failure to deliver account statements ➤ Example: New Account Application Forms ("NAAFs") are not on file for all clients ➤ Example: Member does not ask clients to update KYC or report material change in circumstance

			<p>on at least an annual basis.</p> <ul style="list-style-type: none"> ➤ Example: One or more Approved Persons who are considered agents by the Member have not signed an agent agreement.
4.	Business Standards	A breach of the high business standards required by Rule 2.1.1(b).	<p>! Consistent failure by an Approved Person to return a client's telephone call in a timely fashion is a service issue.</p> <ul style="list-style-type: none"> ➤ Example: Trades are not processed in a timely manner.
5.	Commissions and Fees	Any breach of regulatory requirements relating to the payment and receipt of commissions and fees and all complaints relating to fees.	<p>! Fees related to referrals should be in the Referral Arrangements (#25) category.</p> <ul style="list-style-type: none"> ➤ Example: an annual administration fee is charged to an account without ever providing the client with written notice. ➤ Example: a dealer fails to disclose the DSC fees to a client before selling a DSC fund
6.	Complaint Procedures	Failure by the Member to handle complaints fairly and promptly and failure by the Member to have proper complaint handling policies and procedures. Any breaches of Policy 3.	<ul style="list-style-type: none"> ➤ Example: Failure to maintain complaint handling log. ➤ Example: Member ignores and does not properly respond to client complaints. ➤ Example: Member does not report a client complaint to the MFDA as required by Policy 3 and Policy 6.
7.	Conduct Unbecoming	Conduct unbecoming a Member or AP is a broad category that covers conduct and behaviour that falls below the standard expected of a Member or AP. It includes conduct involving criminal or other illegal or reprehensible behaviour.	<p>! This category is only for criminal, illegal and reprehensible behaviour for which there is no other category. For example a theft violation should be in the theft category.</p> <ul style="list-style-type: none"> ➤ Example: an AP is convicted of tax evasion ➤ Example: breach of provincial life insurance requirements ➤ Example: Assault
8.	Confidentiality / Privacy	The use or dissemination of client information for purposes or to persons not previously consented	<ul style="list-style-type: none"> ➤ Example: a Member sells client information to a third party without client consent ➤ Example: an Approved Person

		to by the client.	accesses client addresses from a Member database to distribute promotional material for a dual occupation
9.	Conflict of Interest	Any breaches of rule 2.1.4 or other regulatory requirements relating to conflicts of interest.	<p>! This category is not to be used for Personal Financial Dealings (#22) allegations or Outside Business Activity (#21) allegation.</p> <ul style="list-style-type: none"> ➤ Example: An AP recommends a mutual fund solely on the basis that it pays a higher commission. ➤ Example: A Member sells shares in itself or the securities of an affiliate to clients.
10.	Disclosure	The failure to disclose a material document.	<p>! Not for Commissions and Fees (#5), Conflicts of Interest (#9), Failure to Cooperate (#12), Outside Business Activities/Dual Occupation (#21), or Failure to Provide Risk Disclosure Document when leveraging (#31).</p> <ul style="list-style-type: none"> ➤ Example: AP fails to provide a client with a prospectus before the purchase of mutual funds. ➤ Example: Client complains that she could not exercise right of withdrawal because she did not receive the prospectus
11.	Excessive Trading/Churning	Excessive redemptions and/or purchases is a practice whereby an Approved Person recommends a trade or multiple trades in a client's account for the purpose of generating sales commissions, increasing trailer fees, extending DSC periods or otherwise creating a benefit for the Approved Person, where there is little or no rationale for the trade(s) or where the	<ul style="list-style-type: none"> ➤ Example: an AP recommends the redemption of DSC funds to make purchases of other DSC funds with no clear benefit to the client ➤ Example: AP recommends redeeming 10% free portion of DSC fund and reinvesting proceeds back into same fund or fund family.

		trade(s) will have little or no economic benefit for the client.	
12.	Failure to Cooperate	Failure to cooperate with a regulator.	➤ Example: failure to cooperate in a review by either not producing requested documents in a timely manner, or not attending to give a statement when compelled to do so, or obstructing the course of an investigation in any way.
13.	Falsification/Misrepresentation	<p>Falsification is the false making or alteration of a document by which the rights or obligations of another person are affected but where a person is not deprived of property or a right.</p> <p>Misrepresentation is a misstatement or omission of a material fact with the intent to deceive.</p>	<p>! Must be distinguished from allegations in #15 where the victim is deprived of property and/or rights.</p> <p>! Where a blank trading form is signed by client and the AP makes trades without all the elements of a trade (buy/sell, time, price and quantity) it is Discretionary Trading (#35).</p> <p>➤ Example: falsification is where an Approved Person falsely reproduces a client's signature on a trading authorization form.</p> <p>➤ Example: misrepresentation is where an Approved Person lies to a client as to the value of the client's accounts.</p>
14.	Financial Requirements	The failure of a member firm to meet its financial requirements as required by the MFDA Rule 3.	<p>! Fund handling violations should be under Handling of Funds (#16)</p> <p>➤ Example: a Level 2 dealer must hold at a minimum \$50,000 in capital. Failure to do so is a capital deficiency violation.</p> <p>➤ Example: The Member is not performing monthly calculations of risk adjusted capital.</p> <p>➤ Example: Bank account reconciliations are not prepared or are not reviewed and approved by management.</p>
15.	Forgery / Fraud / Theft /	This category involves deceptive activities	! Must be distinguished from allegations in #13 where victim is

	Misappropriation / Misapplication of Funds	<p>intended to deprive a person of property or rights.</p> <p>Forgery is the creation of a false document with the intent that it is to be acted upon as the original or genuine document, were the victim is deprived of property or rights.</p> <p>Fraud is generally defined as an act of deceiving and misrepresenting, more specifically an intentional distortion of truth in order to induce another to part with something of value or to surrender a legal right.</p> <p>Theft is the taking of property, not rightfully in ones possession, for personal use and exploitation.</p> <p>Misappropriation is where a person has a right to be in possession of the property but puts it to their own benefit.</p> <p>Misapplication of Funds is when funds in the rightful possession of an AP or Member are put to an improper purpose for the benefit of a third party.</p>	<p>not deprived of property and/or rights.</p> <ul style="list-style-type: none"> ➤ Example: theft is where an AP takes client money from a client account without authorization. ➤ Example: fraud is where an AP falsely solicits funds from a client for investment purposes when the AP’s actual intent is to use the money and put it to a personal benefit. ➤ Example: misappropriation is where a client gives an AP money to put into a mutual fund, but the AP deposits the money into a personal bank account instead. In the misappropriation example the AP had the right to be in possession of the money, but used it in an inappropriate and unauthorized way for the AP’s own benefit. ➤ Example: forgery is where an AP forges a client signature on a client cheque to withdraw funds from the client’s account ➤ Example: misapplication of funds is where money is given to an AP to invest, and instead of investing the money the AP gives the money to another client.
16.	Handling of Funds	The failure to properly handle client funds in accordance with MFDA requirements.	<ul style="list-style-type: none"> ➤ Example: the commingling of cash held on behalf of clients. ➤ Example: a Member holding cash on behalf of a client does not deposit the cash into the trust account
17.	Insider Trading	The use of inside information (information	<ul style="list-style-type: none"> ➤ Example: a corporate director sells stock in a corporation after

		not yet publicly disseminated) by an insider (generally officers, directors, employees or holders of 10% or more of a corporation's stock) to conduct trades in a company's stock.	reviewing poor quarterly financial results that have not yet been released to the public.
18.	KYC Documentation Deficiency	The failure to maintain proper KYC documentation.	<ul style="list-style-type: none"> ➤ Example: KYC Form does not contain the proper investment objectives ➤ Example: KYC Form is not signed by the client ➤ Example: New KYC Form not completed when client transfers to new Member
19.	Know Your Product	Members must fully understand the structure and features of investment products they recommend to clients. Members must perform a reasonable level of due diligence on products prior to their approval for sale By Approved Persons. KYP applies to all investment products whether or not they are sold under a prospectus.	<ul style="list-style-type: none"> ➤ Example: A Member approves its Approved Persons recommend Principle Protected Notes (PPN) to elderly, unsophisticated clients with short-time horizons, who wish to receive monthly income.
20.	Market Manipulation	Any action intended to artificially affect market activity.	<ul style="list-style-type: none"> ➤ Example: artificially inflating the closing price of a stock by coordinating a series of high sell and buy orders at the end of the day in order to artificially inflate the NAV of a mutual fund.
21.	Money Laundering	Taking proceeds of crime and disguising its illegal origin by putting it back into the mainstream economy.	<ul style="list-style-type: none"> ➤ Example: quickly moving funds in and out of various mutual funds may be a sign of money laundering. ➤ Example: accepting cash over

			\$10,000 at a branch and not filing the proper Large Cash Transaction report with FINTRAC.
22.	Outside Business Activities /Dual Occupation	<p>The conduct of any securities business by an Approved Person outside of the Member.</p> <p>The failure to comply with Rule 1.2.1(c) respecting dual occupations.</p>	<p>! The sale of equities should not be in this category. The proper category for the sale of equities is Acting Outside Registration Status (#1)</p> <ul style="list-style-type: none"> ➤ Example: an AP acts as a mutual fund dealer and a real estate salesperson and does not disclose this fact to the Member. ➤ Example: selling exempted securities such as limited partnership units, hedge funds, or protected principle notes, outside of the dealer.
23.	Personal Financial Dealings	A situation where a Member or AP becomes personally involved in the financial affairs of a client. This can include, but is not limited to borrowing money from or lending to a client.	<ul style="list-style-type: none"> ➤ Example: an AP lends money to a client ➤ Example: an AP borrows money from a client ➤ Example: an AP invests jointly with a client
24.	Policy and Procedures	The failure of a Member to keep and maintain adequate internal controls, policies and procedures. A failure of an Approved Person to follow the policies and procedures.	<p>! Any supervision violation under Policy 2 should not be in this category, proper category is #29.</p> <p>! Any complaints policy violation under Policy 3 should not be in this category, proper category is #6.</p> <p>! Lack of proper policies and procedures for confidentiality should be in category #8 – Confidentiality / Privacy</p> <ul style="list-style-type: none"> ➤ Example: Member violations regarding lack of signed Schedule “G” of Form 33-109F4 for Approved Persons to abide by MFDA Rules and systems for ensuring continuous service to clients.

			<ul style="list-style-type: none"> ➤ Example: failure of a Member to establish coordinated methods and measures to ensure the orderly and efficient conduct of its business, the safeguarding of assets, the reliability of its records and the timely preparation of reliable financial information.
25.	Provincial Securities Legislation	The violation of Provincial securities legislation and requirements for which there is no direct or comparable MFDA requirement.	<ul style="list-style-type: none"> ➤ Example: a Member fails to follow the sales code practices set out in CSA Rule 81-105 regarding payment for cooperative marketing. ➤ Example: a Member breaches local securities rules
26.	Referral Arrangements	Any violation of Rule 2.4.2	<p>! Unsuitable referrals should not be in this category, and should be under Unsuitable Investments (#30).</p> <ul style="list-style-type: none"> ➤ Example: an AP does not disclose the referral arrangement to the client in writing. ➤ Example: an AP makes a referral, for a commission, to a portfolio manager outside the Member
27.	Reporting Violations	Violations of reporting requirements.	<p>! Attempts to deceive through the filing process would be classified as falsification or misrepresentation (#13)</p> <ul style="list-style-type: none"> ➤ Example: failure to make appropriate filing with other regulators such as provincial securities commissions. ➤ Example: a Member fails to file its audited financial statements with the MFDA within the required timeframe.

28.	Sales Communications	Violations of Rule 2.7	<ul style="list-style-type: none"> ➤ Example: sending out an advertisement that states that a mutual fund has a guaranteed rate of return. ➤ Example: sending out an advertisement without approval from the Member
29.	Securities Regulator's Order	This includes the violation of an order, agreement and undertaking, or terms and conditions imposed upon a Member or an AP by a regulator.	<ul style="list-style-type: none"> ➤ Example: a Member enters into an agreement and undertaking with the MFDA that requires that the Member hire a consultant by a certain deadline, and the Member fails to hire the consultant by the deadline.
30.	Stealth Advising	When an Approved Person processes trades on behalf of a non-registered individual who purports to be an advisor.	<ul style="list-style-type: none"> ➤ Example: A non-registered person services accounts or provides advice to clients and directs a registered Approved Person to place the trades for those clients
31.	Suitability - Investments	Investments which are not suitable for a client given the client's KYC information.	<ul style="list-style-type: none"> ➤ Example: the risk profile of the portfolio exceeds that of the risk tolerance set out in the know-your-client information. ➤ Example: a client holds a high concentration of one type of security or one sector of the economy and the client is a buy and hold type of investor without the sophistication to recognize concentration problems. ➤ Example: an AP makes a referral to investments that are not suitable for the client.
32.	Suitability - Leveraging	The borrowing of funds to purchase securities when this strategy is not suitable for the client,	<ul style="list-style-type: none"> ➤ Example: a dealer recommends a highly leveraged strategy to an elderly client with a low risk tolerance, a short time horizon and

		<p>considering the client's KYC information.</p> <p>The failure of the Member/Approved Person to provide, explain and have the client sign an appropriate disclosure document setting out the risks associated with leveraging.</p>	<p>a need for income.</p>
33.	Supervision	<p>The failure of a Member to adequately supervise its Approved Persons, officers and partners.</p>	<ul style="list-style-type: none"> ➤ Example: a branch manager does not review the opening of new accounts at the branch office. ➤ Example: Failure to conduct a reasonable supervisory investigation. ➤ Example: NAAFs not reviewed by a designated person at the Member. ➤ The Member failed to designate an on-site branch manager responsible for supervision at one or more branch locations.
34.	Trading Outside Jurisdiction	<p>Where the Approved Person or Member trades in a jurisdiction where the Approved Person or Member is not registered.</p>	<ul style="list-style-type: none"> ➤ Example: an AP only registered in Ontario sells mutual funds in British Columbia. ➤ Example: an AP sells mutual funds in the United States
35.	Transfer of Accounts	<p>The transfer of an account without proper client consent or a delay in the transfer of the account. All complaints relating to account transfers should be in this category.</p>	<ul style="list-style-type: none"> ➤ Example: delay is where a Member takes an unreasonable amount of time to transfer an account to another Member. ➤ Example: lack of consent is where an AP moved to a new dealer, and the new dealer conducts a bulk transfer of the AP's clients without written consent.

36.	Unauthorized/Discretionary Trading	<p>Unauthorized Trading is a purchase or redemption done without the client's specific knowledge and approval.</p> <p>Discretionary Trading is a purchase or redemption where a client has not given express approval for each and every aspect of a redemption or purchase, contrary to Rule 2.3.1(a).</p>	<p>! The use of blank signed forms so that clients may phone in trades is Blank Signed Forms #2</p> <p>➤ Example: unauthorized trading is where an AP makes a redemption without verbal or written authority from the client.</p> <p>➤ Example: discretionary trading is where a client is away on vacation, and the client tells the AP to make any necessary trades while away. The AP then makes trades while the client is on vacation without all the necessary elements of a proper trading authorization from the client (buy/sell, time, price, quantity).</p> <p>➤ Example: discretionary trading is where a client signs a blank trade authorization and the AP makes trades using the blank forms</p>
37.	Other		

**Please Note: Examples are provided for illustrative purposes only. They are not intended to represent the sole instance(s) of a violation and should not be construed as such. Examples are provided for the sole purpose of assisting METS administrators in their determination of the appropriate violation category for an event.*

For example, complex investment products (including those that are novel or not transparent in structure) may require a more extensive review than more straightforward products. Products that are sold under a prospectus exemption may require a more extensive review because of the limited disclosure available about them.